

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 12th October 1981

Sterling turned decidedly softer today as further commercial sellers entered the lists to make their mark. Likely conflict at the Conservative Party conference also added to the turn in sentiment. The dollar's initially weaker tone, which stemmed from Friday's reduction in the surcharge on the Federal Reserve Discount Rate as well as an encouraging set of monetary statistics, was turned for the better by the pound's poor showing. Sterling's ERI fell from 89.4 to 88.5, after 88.3 at mid-day.

The pound closed little changed at 1.9015 on Friday in New York, although the dollar was otherwise somewhat weaker. This morning the dollar began a good deal softer in response to a substantial decline in Euro-dollar deposit rates. Sterling opened at 1.9087 and traded up to 1.9140 on the early exchanges. The pound's decline coincided with the dollar's turn and each fed off the other. Major European Central Banks, to be sure, gave modest support to the dollar, but sterling's fortunes were probably the major influence. Initially, perhaps, it sagged merely under the weight of Friday's sales. Later other commercial sellers joined in. By mid-morning selling was widespread. The pound declined almost without let until it touched 1.8745 in late morning. A brief recovery to 1.8850 followed some profit-taking but the rate soon fell again, fluctuating around 1.8775 for most of the afternoon before turning up to finish at 1.8827. Three-month Euro-dollars closed $\frac{3}{8}\%$ lower at 15 $\frac{9}{16}\%$. Comparable sterling deposits were only a fraction easier at 15 $\frac{9}{16}\%$. The forward premium, however, narrowed only to $\frac{1}{4}\%$ p.a. so that sterling enjoyed a modest intrinsic premium.

The pound lost $1\frac{1}{2}\%$ to both the Swiss (3.44 $\frac{1}{2}$) and French (10.29) francs, $1\frac{3}{8}\%$ to the deutschemark (4.10 $\frac{1}{8}$). The dollar eased against these currencies to 1.8295 (after 1.8145), 5.4650 (after 5.4325) and 2.1812 (after 2.1612) respectively. EMS finished 2 $\frac{3}{16}\%$ spread between the French franc and deutschemark. The dollar was bought by the German, French and Swiss Central Banks in the sums of \$30mn., \$66mn. and \$73mn. respectively. The Italians, however, sold \$160mn. The French also took in \$55mn.-worth of deutschemarks, while the Germans sold \$13mn.-worth of French francs. The yen eased to 227.22.

Gold gave up a little ground as the dollar recovered from its early softness. Fixings were \$451.60 and \$449.50.

Operations:	Market	-	\$35mn.
	Zimbabwe	+	13
	Sundries	+	7
			<hr/>
		-	\$15mn.
			<hr/> <hr/>

JGH 12th October 1981.

JGH