

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 14th October 1981

The exchanges fashioned a relatively quiet session today as dealers adjusted somewhat reluctantly to the view that interest rates and the dollar must soon resume a downward course, whatever the present levels of Federal Funds and whatever the longer-term views of respected Wall Street analysts. Sterling traded comfortably until this afternoon when strong rumours of the imminent reimposition of exchange controls caused a flurry of nervous selling. The dollar's further weakening, however, brought a firm close for the pound. The E.R.I. finished unchanged at 88.2.

Sterling closed at 1.8550 in New York yesterday, with the dollar considerably stronger following a surprisingly strong statistic for Retail Sales. This morning the dollar opened firmer still and sterling began at 1.8492, falling to 1.8470 on the early exchanges. The trend was quickly reversed, however, and the pound was bid gradually higher in a quiet market, touching 1.8595 before profits were taken. This afternoon the dollar strengthened when Federal Funds opened very firm and traded up to 16½%. Sterling, already beset by the rumoured return of exchange control, was offered down to 1.8460. Some easing in Federal Funds, an improvement in bond prices and the subsequent entry of the Federal Reserve to execute a repurchase agreement on central bank customer account turned the dollar easier again and the pound advanced quickly to 1.8607 before closing at 1.8575. The three-month forward premium widened by 5/16% to 9/16% p.a. Eurodollars, however, were ½% firmer across the board, the three months' at 16½%, while comparable sterling deposits were unchanged at 15 ¾%. The covered differential in London's favour was thus all but eliminated.

Sterling was little changed in Zurich (3.44 7/8), a touch firmer in Frankfurt (4.12½) and ¾% more expensive in Paris (10.35%). The dollar was still somewhat stronger overall by the end of the day in each of these centres at 1.8570, 2.2190 and 5.5740 respectively. E.M.S. closed less than 2% spread between the French franc and deutschmark but only after official French purchases of \$105mn. - worth of deutschmarks and sales by the Bundesbank of \$130mn. and \$40mn. - worth of French francs. The Italians, too recouped \$69mn. The Yen closed unchanged in London at 228.42, having earlier weakened in Tokyo to 229.05.

Gold was marginally better but failed to break out of its recent narrow traded range. Fixings were \$445.25 and \$444.25.

Operations:	Market	+ \$7mn.
	British Gas	+ 10
	(PSB G'teed)	
	Government	- 5
	Sundries	+ 1
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		+ \$13mn.
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