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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 15th October 1981

Sterling saw good two-way business today and successfully survived some further substantial commercial selling. The dollar was relatively steady, albeit at slightly cheaper levels, but perked up later in the day on potential developments in Egypt. Sterling's ERI rose from 88.2 to 88.3.

The pound closed better at 1.8610 yesterday in New York where the dollar finished generally easier following some easing in Federal Funds. This morning the dollar began weaker and continued to soften. Sterling opened at 1.8612 and traded up to 1.8675 on some modest demand from Continental Europe. The dollar then turned and sterling mirrored its movements for most of the day. A large UK multinational sold the pound heavily down to 1.86. One or two smaller buyers cushioned the fall, but the rate fell to 1.8570 by late morning. Early American buyers brought a return to 1.8651 but, as the dollar tended firmer, sterling retreated to about 1.86 and enjoyed a fair volume of two-way business around this level until the close came at 1.8595. Later, however, Americans talked loudly of possible military intervention in Egypt and the dollar was strongly bid. Sterling held up better than most but was traded nonetheless down to 1.8460 before going out at 1.8490. Three-month Euro-dollars were $\frac{1}{2}\%$ easier at 16%. With comparable sterling deposits unchanged, the forward premium narrowed by $\frac{3}{16}\%$ p.a. so that the covered differential remained modestly in London's favour.

The pound lost $\frac{1}{2}\%$ in Paris (10.32 $\frac{1}{2}$), was $\frac{1}{8}\%$ better in Zurich (3.45 $\frac{1}{2}$), $\frac{1}{8}\%$ cheaper in Frankfurt (4.11 $\frac{1}{2}$). The dollar's late strength was sparked in Chicago, where the yen fell through a chart point and closed at 229.87, trading on later to 2.3002. The Swiss franc, too, was heavily sold, and closed at 1.8567 (later 1.8695). The deutschemark was 2.2150 (later 2.23) and the French franc 5.5525 (later 5.5925). These last two again spanned EMS, which finished 2 $\frac{1}{2}\%$ in width. The French bought \$16mn.-worth of deutschemarks and the Italians sold \$90mn.

Gold was again very steady, with fixings at \$446.85 and \$446.65 but fell away late in the day before the dollar's advance and closed around \$443.50.

Operations:	Market	+	\$6mn.
	India	+	7
	Sundries	+	7
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		+	\$20mn.
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	Overnight	-	\$33mn.
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