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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th October 1981

The exchanges ended the week in nervous and uncertain fashion. Fears of a large increase in US money supply, following Kaufman's remarks earlier this week, made for a firmer dollar and unsubstantiated rumours of a coup in Poland tended further to obfuscate the outlook. Sterling saw sizeable two-way business this morning but eased progressively thereafter, with the situation at British Leyland a depressing factor. The ERI fell from 88.3 to 87.4.

The Chicago IMM sold sterling heavily down to 1.8220 yesterday before it recovered to close in the United States at 1.8355, still nearly 2½ cents lower than London's finishing price. This morning the dollar tended easier at first. Sterling started at 1.8372 and ran up to 1.8465 by mid-morning. A large commercial buyer was seen in London and a once and former bear was ironing out a short position in considerable size. Other commercial sellers were around, however, and, when New York professionals came in at a very early hour of their day to sell sterling, the rate started to slip away, never really to recover. The dollar turned firmer at this time, initially on the Polish rumours. Sterling fell to 1.8262 by early afternoon, recovered to 1.8375 as Federal Funds edged below 15%, but weakened once more as Chicago bought the dollar, touching 1.8220 before closing at 1.8267. The three-months forward premium was unchanged at ¾% p.a. Euro-dollar and sterling deposits were firmer by 3/16% and ¼% respectively so that the covered differential rose to 5/16% in London's favour.

The pound shed ½% in both Paris (10.26%) and Frankfurt (4.09%), ¼% in Zurich (3.42%). The dollar hardened in these centres to 5.6212, 2.2430 and 1.8765 respectively. EMS was 2 3/16% spread between the French franc and deutschemark. The French bought \$116mn.-worth of deutschemarks; the Germans \$50mn.-worth of French francs and \$65mn. The Italians took in \$70mn. The Swedes sold \$23mn. The yen weakened further to 231.40.

Despite the initially easier dollar, gold was softer this morning and flirted nervously with the \$440 level. This was not breached, however, and the price was fixed at \$441.25. The metal edged gradually firmer throughout the rest of the day. The second fixing set a level of \$443.75 and the close was around \$445.

Operations:	Market	-	\$45mn.
	New Zealand	-	9
	Iran	+	13
	Ghana	+	5
	British Aerospace	+	5 (fixed)
	Interest	+	5
	Sundries	+	1
		-	<u>\$25mn.</u>

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