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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 20th October 1981

Sterling had a sickly tone today. In part this doubtless reflected the delayed impact of yesterday's conversion operation, the rump of which was completed this morning. Partly, too, it resulted from professional short positions taken up in advance of the trade figures (although in the event the figures themselves did nothing to improve the pound's health). The dollar recovered from a weaker start to close little changed. Sterling's ERI fell from 88.0 to 87.3.

The pound was sold down to 1.8270 in a thin New York market yesterday before closing there at 1.8307. This morning the dollar opened easier. Sterling began at 1.8392 and traded up to 1.8435 in the early exchanges. Commercial and professional sellers quickly appeared, however, and, with the dollar turning better, sterling settled back to trade around 1.8375. New York returned early to sell pounds, Europeans joining in, too. Sterling was traded down to 1.8265 but recovered to 1.8330 when the US bond market opened firmer. The pound sat at 1.8290 as the trade figures were announced. Shortly after, business took place at 1.8330 again but the status quo was quickly restored and, with Federal Funds very firm at 15 $\frac{1}{2}$ %, the dollar hardened and sterling was sold down to 1.8245 before closing at 1.8280. Later still the American bond market sold off when Federal Funds stayed firm, despite the entry of the Federal Reserve to consummate repurchase agreements. The dollar strengthened further and sterling was marked down to 1.8190. Three-month Euro-dollars were unchanged at 16  $\frac{3}{16}$ %, comparable sterling deposits a shade easier at 16 $\frac{1}{2}$ %. The forward premium was  $\frac{1}{4}$ % p.a. and the covered differential remained modestly in London's favour.

The pound lost  $\frac{1}{2}$ % to the Swiss franc (3.41 $\frac{1}{2}$ ) and nearly 1% to each of the French franc (10.22 $\frac{1}{2}$ ) and deutschemark (4.07 $\frac{1}{2}$ ). The dollar was a touch firmer in Switzerland (1.8670) after the National Bank stepped in early to buy \$50mn. and swap in \$550mn., but a little easier in France (5.5945) and Germany (2.2292). The French franc and deutschemark contained EMS for much of the day but, by London's close, the Danish krone (7.1665) held pole position. The Germans sold \$76mn.-worth of French francs; the French bought \$116mn. and \$23mn.-worth of deutschemarks. The Italians spent \$65mn. Elsewhere the Swedes lost \$73mn. The yen weakened to 232.80.

Gold was again dull and featureless. Fixings were \$437.20 and \$437.30.

Operations:	Market	-	\$86mn.
	BIS	+	48
	Sundries	+	3
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		-	\$35mn.
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*JGH* 20th October 1981.

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