

SECRET

THE DEPUTY GOVERNOR

Foreign Exchange and Gold Markets

Wednesday, 21st October 1981

Sterling was a deep and active two-way market today and, while struggling to contain the advance of a very firm dollar, recovered considerable ground against the Continental currencies. The dollar was buoyed by the continuing tightness of day-to-day money and by fears of conflict in the Middle East. Sterling's ERI climbed from 87.3 to 87.6.

The pound traded down to 1.8145 in New York yesterday before closing there at 1.8212. This morning the dollar began a little easier and moved up and down on the early exchanges. Sterling started at 1.8227 and traded down to 1.8185 before settling around 1.82. Eventually the dollar turned better as a variety of rumours began to spread about hostilities between Libya and Egypt and others. Sterling, however, moved ahead against the trend as a number of buyers appeared in substantial size. The pound peaked at 1.8355 in late morning, with the dollar also at best levels. Some sizeable commercial sellers of sterling then entered the lists and the pound retreated to 1.8230 by early afternoon when Chicago returned as modest sellers. The dollar, however, remained very firm this afternoon as Federal funds opened tight again and traded up to 16%. Sterling nonetheless traded comfortably and with little overt offering fell no lower than 1.8180 at the close. Three-month eurodollars rose 3/16% to 16 3/8%. The sterling deposit was 1/8% firmer at 16 1/2%. The forward premium widened to 3/8% p.a. so that sterling commanded an intrinsic premium of 1/4%.

The pound gained 7/8% in Switzerland (3.44 1/2) and 1 1/4% in both France (10.35 3/8) and Germany (4.12 3/8). The dollar was substantially firmer in these countries at 1.8945, 5.6975 and 2.2683 (later 2.2725) respectively. EMS closed fully-stretched between the Danish krone (7.27 1/2) and deutschemark. The Germans sold \$117mn. and \$72mn.-worth of French francs. The French bought \$21mn. and \$66mn.-worth of deutschemarks. The yen eased to 233.65.

Gold lost further ground to the advancing dollar. Fixings were \$433.30 and \$429.

Operations:	Market	+	\$8mn.
	British Gas		
	(PSB G'teed)	+	10
	Egypt	+	6
	Interest	+	6
	B.I.S.	-	11
	Sundries	+	6
		+	<u>\$25mn.</u>

*JGH* 21st October 1981

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