

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd October 1981

The dollar went from strength to strength today, supported yet by the unexpected firmness of short-term interest rates, but now also by some parochial weakness in the deutschemark. In the event, both pound and yen performed relatively well and sterling's ERI rose from 87.6 to 87.8.

The pound touched 1.8150 soon after London's close yesterday and finished at that level in New York although the dollar was a good deal stronger against the Continental European currencies. This morning the dollar opened little changed and drifted easier through a quiet morning as eurodollars edged back from slightly higher opening levels. Sterling began at 1.8177 and traded up to 1.8245 before settling around 1.8225 for much of the morning session. Forceful official intervention in Germany was one factor behind the dollar's decline. Late in the morning the dollar turned up and sterling was marked back through 1.82. The Frankfurt fixing saw heavy offering of deutschemarks and, when New York reopened with Federal funds still very firm (15 $\frac{3}{8}$ %), the dollar was bid very much firmer. Sterling, however, moved very comfortably around 1.8150 until late in the day when a final surge by the dollar took the rate back to 1.8092 before the close was struck at 1.8115. Three-month eurodollar and sterling deposits both hardened to 16 7/16%. The forward premium narrowed to $\frac{1}{2}$ % p.a. so that the covered differential remained at $\frac{1}{2}$ % in London's favour.

The pound gained $\frac{1}{8}$ % against the Swiss franc (3.45 $\frac{1}{2}$), $\frac{3}{8}$ % against the French franc (10.40 $\frac{1}{2}$) and $\frac{1}{2}$ % against the deutschemark (4.14 $\frac{3}{8}$). The dollar firmed against these currencies to 1.9075 (after 1.9120), 5.7425 (after 5.7550) and 2.2880 (after 2.2940). The Swiss bought \$50mn. and swapped in \$200mn. to slow their franc's advance against the deutschemark. It closed at 0.83 $\frac{3}{8}$. The Bundesbank sold \$240mn. EMS was 2 3/16% in width at the close in London between the Lira (1207 $\frac{1}{2}$) and deutschemark. The Danes bought \$15mn. and \$7mn.-worth of deutschemarks. The French took in \$63mn.-worth of deutschemarks. The Germans sold \$35mn.-worth of French francs. Elsewhere the Swedes spent \$46mn. The yen was very steady, easing only to 233.97.

Gold was again a dull and uninteresting market. Having recovered a little this morning behind the slight easing in the dollar - the fixing was \$434.60 - it held its ground this afternoon in the face of the dollar's renewed strength. The later fixing was \$433.75.

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|-------------|------------|---|---------|
| Operations: | Market | + | \$11mn. |
| | Iraq | + | 15 |
| | Government | + | 12 |
| | I.D.A. | + | 11 |
| | Iran | + | 7 |
| | Sundries | - | 1 |
| | | | <hr/> |
| | | + | \$55mn. |

Jm 22nd October 1981

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