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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 26th October 1981

In active markets elsewhere the dollar surged forward today, partly on internal considerations (the latest CPI and money numbers gave little hope for an easing of US interest rates) and partly on external grounds (the increased tension in Poland and the healths of the German economy and of Chancellor Schmidt, all of which weakened the deutschemark). Perhaps buoyed up by talk of base rates being raised, the pound at first stood apart from the rush and retreated less speedily only to begin catching up later in the afternoon. Buying interest from New York in the closing hour brought a better tone and the pound finished firmly enough for the ERI to record a net improvement to 88.1 (after 88.4 at the opening).

Sterling ended last week in New York and began this week in London at 1.8170. It immediately moved lower, touching 1.8032 in mid-morning before recovering at noon to 1.8180 (4.18½ against the deutschemark). Business was negligible at this stage but as a few selling orders came with New York's opening a more rapid decline was effected, down to 1.7987. Good buying orders then appeared and sterling ended the day in London at 1.8060, about 1% lower than on Friday evening. There was little net change in interest rates or forward margins.

On the Continent the pound gained about ½%, rising to 4.16% in Germany, 10.45½ in France and 3.46% in Switzerland. The currency to suffer most against the dollar was the deutschemark, which touched 2.3237 at worst before rallying on profit-taking to close at 2.3085, a net 1½% loss since Friday. It had been helped, too, by the Bundesbank selling \$224mn. spot, a further \$200mn. forward and \$17mn. of EMS currencies (mostly French francs); the French purchased deutschemarks equivalent to \$78mn., making the total defence over \$0.5 billion. EMS at the close was 2½% wide between the deutschemark and the French franc (5.7880). The Italians were buyers of \$50mn. At worst the Swiss franc had weakened, in line with EMS, to 1.9317 before rallying to close at 1.9190. In Tokyo the Japanese intervened for the first time since the end of August: they sold \$40mn. as the yen eased to 234.95. It closed lower in London, at 235.47.

Gold fell to \$428 this morning and further to \$426 at the second fixing. In the face of the dollar's strength, buyers were reluctant but some interest was revived whenever \$425 was quoted.

Operations:	Market	+	\$9mn.
	BIS	+	44
	Iran	+	10
	Bangladesh	-	9
	Sundries	-	5
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		+	\$49mn.
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