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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 29th October 1981

The exchanges were active today with much in the way of official pronouncements, rumours, expectations and indicators to fuel the flames. The dollar eventually succumbed to a 2.7% decline in leading indicators and a strong domestic bond market, which itself was spurred by a reduction in one major Prime Rate to 17½%. The bigger motive force, however, was the Autumn press conference at the Swiss National Bank, at which the authorities declined to state an explicit exchange rate target and came close to declaring that their former ceiling (S.F 0.80 to the DM) was not presently effective. Sterling was well-traded and generally firm, although its gains on the Continent were given up once the dollar started to weaken. The ERI rose from 88.2 to 88.5.

The pound closed quietly at 1.8230 in New York yesterday. This morning the dollar showed no decisive trend, gaining some strength from a much reduced trade deficit while otherwise feeling a touch softer. Sterling began at 1.8215 and touched 1.8235 before meeting professional selling in London. The rate declined to 1.8150, amid good two-way business, before settling around 1.8175. As the morning wore on, the buyers appeared. European, Middle Eastern and home-based corporate interest was seen and there were said to be foreign buyers of the Cable and Wireless issue. The prospect of higher oil prices arising from the OPEC meeting was another positive factor. Eventually, the earlier professional sellers returned to cover positions and the pound advanced steadily to around 1.8250 by early afternoon. By now the Swiss franc was leading the dollar down in the wake of the National Bank's pronouncement. Sterling was bid up strongly to 1.84 as New York opened to the announcement of leading indicators. Thereafter, however, while the dollar continued weaker, profits were taken in sterling and the rest of the session was spent around the closing level of 1.8345. Later, a number of US banks reduced broker loan rates and one major cut Prime by ½%. The bond market continued to strengthen, the dollar to weaken and sterling was last seen at 1.8415. Three-month eurodollars shed ¼% to 16%. The cost of forward cover, however, widened only to ¼% p.a. so that sterling's intrinsic premium rose to ¼%.

The pound closed unchanged on the deutschemark (4.16%, after 4.19%), was a touch easier against the French franc (10.45½) and lost a full 1% to the Swiss franc (3.40%). The dollar weakened against all three currencies to 2.2712, 5.6975 and 1.8550 respectively. The Swiss bought deutschemarks worth \$44mn. Following the authorities statement, their franc firmed from 0.82½ to 0.81½ before closing at 0.81 11/16 to the DM. The French and German currencies again spanned EMS, 2 1/16% apart. The French and Dutch bought deutschemarks worth \$12mn. and \$26mn. respectively. The Italians took in \$126mn. Elsewhere, the Swedes spent \$23mn. The yen weakened to 235.45 this morning but closed little changed at 234.10.

Gold fell sharply in New York overnight and remained very soft this morning, fixing at \$422.25 and trading on down to \$421.50. This afternoon there was some recovery as the dollar and interest rates eased. The fixing was \$424.50 and the close around \$426.50.

Operations:	Iran	+	\$5mn.
	Sundries	-	11
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			- \$6mn.
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