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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd November 1981

Sterling was depressed by events at British Leyland today but, with the dollar tending softer, and the official hand ready to cushion any undue pressure, selling was never heavy and was always comfortably contained. The dollar proved reluctant to cede ground and did so only late in the day when the bond market recorded further substantial gains. The ERI advanced to 88.9, after 89.3 this morning.

The pound eventually closed at 1.8835 in New York on Friday, the dollar declining substantially as the Federal Reserve reduced Discount Rate by 1% to 13%. This morning the dollar fell a good deal further in the Far East and sterling traded up around 1.8965, though itself losing ground to the Continental currencies. By the time London opened, the dollar was on the road to recovery. Sterling began here at 1.8877 and soon met professional and commercial selling which persisted even when the dollar steadied elsewhere. The rate fell to 1.8727 before official support induced some short-covering. The pound settled around 1.8750 and traded near that level for much of the day. On several occasions it was sold down to 1.8705 and in the final moments, New York offered it down to 1.8695, the low point of the day. After the close, however, the dollar eased and the pound bounced back to 1.8785 before settling again around 1.8750. Three-month Euro-dollar and sterling deposits both shed $\frac{3}{8}\%$ to $15\frac{1}{2}\%$ and 16% respectively. The cost of forward cover was unchanged at $\frac{3}{8}\%$ p.a. and sterling's intrinsic premium was also unchanged at $\frac{3}{8}\%$.

The pound was a fraction easier in Frankfurt ($4.15\frac{1}{2}$), $\frac{1}{2}\%$ cheaper in Paris ($10.44\frac{1}{2}$) and 1% easier in Zurich ($3.38\frac{1}{2}$). The Swiss franc appreciated strongly to 1.8112 (later 1.7990) following further remarks on exchange rate policy by Lusser. Against the deutschemark, it advanced once more through 0.81 $\frac{1}{2}$. The French franc ($5.58\frac{1}{2}$) and deutschemark (2.2240) finished at top and tail of EMS, slightly less than 2% apart. The Germans sold \$21mn. in the fixing but bought \$34mn. outright forward. The Irish sold \$5mn. The Dutch bought \$15mn. and \$5mn.-worth of deutschemarks. Elsewhere, the Swedes spent \$38mn. The yen improved to 229.97.

Gold continued its sluggish advance against the declining dollar. Fixings were \$431 and \$430.

Operations:	Market	-	\$49mn.
	British Aerospace	+	10
	Sundries	-	1
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		-	\$40mn.
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