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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 6th September 1982

The gold market continued its rally today, benefitting from concerns emanating from Toronto about the health of the international financial system. The exchanges, however, were quiet, with the US market closed for the Labor Day holiday. An M1 increase of \$1.5bn., at the top end of the range of expectations, helped the dollar to firm in thin trading. Sterling was a little easier and the ERI slipped 0.2 to 91.5.

Sterling fell back to close at 1.7280 in New York on Friday night and opened at 1.7235 this morning. In a quiet market, the rate firmed during the morning, despite some selling by a Japanese bank, to reach 1.7293 at best but it had relapsed to 1.7256 by noon. During an uneventful afternoon the rate drifted down to 1.7230 before closing at 1.7241. Both three-month Euro-dollars and interbank sterling were 1/16% firmer, at 11 11/16% and 10 15/16% respectively.

The pound's performance in Europe was somewhat mixed: it lost 1/4% in France (12.05), gained a similar amount in Switzerland (3.64) and was virtually unchanged in Germany (4.28%). The dollar closed about 1/2% firmer in each of these centres, at 6.9887, 2.1115 and 2.4831 respectively. EMS was 1 13/16% wide between the punt (1.3853) and the deutschemark which, in turn, was 2 11/16% from the lira (1398.25). The Danes spent \$82mn. supporting their crown, while the Germans sold \$11mn. Elsewhere, the Norwegians devalued their crown by 3%, in a follow-up to last month's readjustment of their currency basket; they also bought \$59mn. to help depress the crown. The Swedes sold \$60mn. The yen closed at 258.10.

Gold was a very active market and spreads between buying and selling prices widened significantly as the day progressed. A long and difficult morning fixing was eventually concluded at \$458. In the afternoon further substantial stop/loss buying orders were triggered as long outstanding short positions were covered. The second fixing was at \$474.

Operations:	Market	-	\$5mn.
	IDA	+	5
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