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8. 9.82.

THE GOVERNOR'S PRIVATE SECRETARY

Copy to Mr. Sangster

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 1st September to Wednesday, 8th September

Concern over the effects on North American banks of their involvement in Latin America brought the dollar under pressure but, as the markets came to view the problems as having a more widespread effect on the international financial system, it recovered to show small net rises against most currencies. Gold also reacted strongly. Sterling generally remained on the sidelines with the ERI up 0.1 (net) over the week at 91.7.

The pound closed in New York on Wednesday at 1.7237. As the dollar came under pressure on concern over North American banks, sterling moved up to 1.7455 by Friday but, with the dollar staging a recovery in light trading, it declined to close in New York at 1.7280. In quieter markets, sterling traded narrowly but on Wednesday the dollar strengthened generally and sterling closed the week at 1.7195. It was virtually unchanged against the DM (4.29 3/16) and gained 1/2% against a weaker French franc (12.13 1/2). Three-month Euro-dollars (11 5/8%), sterling interbank (10 13/16%) and the forward premium (7/8%) showed little change.

In EMS, the punt and DM (4.2960) remained at top and bottom respectively, with the DM 1/8% lower against the dollar. The French franc again came under pressure, and despite the French selling \$210mn., fell 1/4% to 7.0550, only some 1/4% above the DM. With the Danish Government resigning, the Danish krone also came under pressure and the Danes sold \$520mn. Elsewhere, the Swiss franc (2.1295) was 1/4% lower and the yen (260.55) declined by 1/2%. The Norwegian krone was devalued by 3%.

After fixing on Thursday at \$408.25, gold began to rise sharply on Friday and by the opening in London on Tuesday had reached \$505 (a 16-month high). This level provoked some dishoarding, including some East European selling, and the price fell erratically thereafter with the final fixing today at \$458. Trading was very heavy in the period.

8th September 1982.

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