

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 12th November 1981

Today's session on the exchanges produced no spectacular developments. The dollar eased somewhat in line with interest rate movements, the Swiss franc in particular outstripping the field. Sterling met good demand, especially from the United States, and took in its stride the miners' rejection of the latest pay offer. The ERI rose from 89.2 to 89.4.

The pound and dollar both opened a little easier this morning, sterling starting at 1.8817 and touching 1.8810 on the early exchanges. Buying interest from the Far East and some professional demand in London took the pound up to around 1.8850 and, when the dollar later softened, sterling approached 1.89 before reverting to around 1.8875. Early this afternoon, the miners' rejection of their pay offer brought a mark-down to 1.8825, but the dollar was quickly bid higher across the board and sterling steadied. New York returned from holiday to find Federal funds considerably cheaper at 13 $\frac{1}{2}$ %. Later, two major prime rates were reduced by $\frac{1}{2}$ % to 16 $\frac{1}{2}$ %. The dollar weakened and the pound met good professional demand from New York, advancing strongly to 1.8940 before closing at 1.8930. Later still the IMM sold dollars and sterling touched 1.90 before winding up around 1.8950. Three months' cover cost 1 $\frac{1}{2}$ % p.a. Eurodollars were over $\frac{1}{2}$ % cheaper at 13 7/16% while the sterling deposit shed 3/16% at 14 15/16%. The covered differential thus rose to $\frac{1}{8}$ % in London's favour.

The pound lost $\frac{1}{8}$ % to the Swiss franc (3.32 $\frac{1}{2}$ %) but gained $\frac{1}{8}$ % on the French franc (10.53 $\frac{1}{2}$ %) and $\frac{1}{4}$ % on the deutschemark (4.17 $\frac{1}{2}$ %). The dollar eased against these currencies to 1.7582, 5.5660 and 2.2060 respectively. The Swiss franc passed the crucial 0.80 barrier against the deutschemark, closing at 0.79 $\frac{1}{2}$. The National Bank bought \$20mn. and swapped in \$320mn. over the end-year. EMS was again slightly less than 1 $\frac{1}{4}$ % spread between the Danish krone (7.1150) and deutschemark. The French bought \$19mn., the Irish \$21mn. and the Dutch \$125mn. The Italians sold \$56mn. and the Belgians \$29mn., \$15mn. of guilders and \$15mn. of Swiss francs. The yen firmed to 226.71.

Gold was sold down to around \$407 at one stage in New York yesterday but recovered in the Far East and traded today at around yesterday's levels. Fixings were \$412.25 and \$411.50.

Operations:	Market	+ \$23mn.
	Interest	+ 27
	Sundries	+ 1
		<u> </u>
		+ \$51mn.

Jm 12th November 1981

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