

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 13th November 1981

A propitious day for the pound, which scored substantial gains everywhere as strong professional demand was evinced, especially against the weakening deutschemark. The dollar, too, closed better, partly through its vehicular role into sterling, partly as the US bond market, despite lower short-term interest rates, performed uncertainly. Sterling's ERI advanced from 89.4 to 90.7.

Both pound and dollar gained in New York yesterday and sterling closed there at 1.9005 (DM 4.21). This morning the dollar began a little softer but sterling went from strength to strength, starting at 1.9032, advancing to 1.91 on good professional demand, then rising further to 1.9180 (DM 4.23 $\frac{1}{2}$ ), as German banks, in particular, came in to sell deutschemarks for pounds. This last movement - which may well have been founded on some foreign official movement of funds - brought a stronger dollar in its wake but also attracted the attention of a familiar and traditional bear who chose to sell sterling for deutschemarks. All this brought the pound back to 1.9005 before settling around 1.9040. Publication of the RPI had little impact. Early this afternoon the dawn raiders from New York were active buyers of pounds again and the rate was restored to 1.9140 around which level it was maintained, despite continuing firmness in the dollar elsewhere, until the close at 1.9125. Three-months' cover cost 1  $\frac{1}{16}$ % p.a., while three-month Euro-dollar and sterling deposits eased by  $\frac{1}{2}$ % to 13  $\frac{3}{16}$ % and 14  $\frac{7}{16}$ % respectively. This reduced the cover differential to 3/16% in London's favour.

The pound gained 1 $\frac{3}{8}$ % in Switzerland (3.37 $\frac{1}{8}$ %) and nearly 2% in France (10.73 $\frac{1}{2}$ %) and Germany (4.25 $\frac{1}{8}$ %). The dollar recovered in these countries to 1.7635, 5.6155 and 2.2242 respectively. The SF/DM cross-rate was lowered again to 0.79 $\frac{1}{4}$ , the Swiss swapping in \$150mn. EMS was fully-stretched by London's close (though around 1 $\frac{1}{2}$ % wide for most of the European working day) between the Danish krone (7.13) and deutschemark. The Danes bought \$8mn., the Irish \$16mn., the French \$74mn. (of which \$32mn. in deutschemarks) and the Dutch \$115mn. The Italians spent \$49mn. Elsewhere the Swedes lost \$47mn. The yen eased to 227.34.

Gold moved narrowly in response to the dollar, fixing at \$414 this morning and \$412.50 this afternoon.

Operations:	Market	+	40mn.	
	BIS	+	10	
	Sundries	+	<u>3</u>	
			<u>+</u>	<u>\$53mn.</u>

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