SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 17th November 1981

Sterling suffered a major correction today as dealers took advantage of the new exalted levels to move into the much wanted dollar. Despite yesterday's abolition by the Federal Reserve of the 2% surcharge on the Discount Rate and the continuing downward trend of interest rates, the dollar hardened further against all expectations. The Swiss franc, which, like the pound, had been heavily bought in recent days, suffered more than most in this re-appraisal. The yen alone remained on an upbeat. Sterling's ERI fell from 91.3 to 90.2.

In yesterday's twilight hour a thin New York market sold the pound down to 1.8850 - a fall of nearly four cents from London's close - before stability was restored and the dollar's wings were clipped by the abolition of the surcharge on the Discount Rate. Sterling closed in New York at 1.9010 (DM $4.25\frac{5}{8}$) but opened in London this morning at 1.9080 (DM $4.29\frac{1}{2}$) despite a very much firmer dollar. After touching 1.91, the pound hovered around the opening level for some time, buoyed by some modest Continental demand. Eventually both dollar and pound sagged, suggesting some profit-taking on yesterday's sterling/deutschemark operations. The pound steadied around 1.9050 and passed the morning fairly quietly, although the dollar continued softer as a large Eastern operator bought the yen. Around lunchtime, however, sterling ran into heavy selling, sparked by professionals in London but fed also by commercial sellers and, later, by the first New Yorkers. The pound fell sharply to 1.8895 before the official watchdog, together with the same Eastern operator, restored some semblance of order. The IMM, too, were modest buyers of sterling at their opening. The dollar meanwhile turned firmer again, as Federal Funds remained obstinately tight around $13\frac{1}{4}$% and the US bond market looked soft. Sterling, however, recovered to 1.9005 before yielding late in the day to a final upsurge by the dollar and closing at 1.8945. Three-month Euro-dollars were unchanged at 12 13/16% but the sterling deposit hardened by 3/16% to $14\frac{5}{8}$ (after 14 13/16%). The cost of cover widened sharply to $1\frac{3}{4}$% p.a. so that sterling's intrinsic premium was all but eliminated.

The pound gained $\frac{3}{4}$% in Switzerland ($3.41\frac{1}{4}$) but lost $\frac{3}{4}$% in both France ($10.76\frac{1}{8}$) and Germany ($4.26\frac{3}{4}$). The dollar advanced in these countries to 1.8015, 5.68 and 2.2525. With the late surge in the dollar registering only in the major European currencies, EMS widened by London's close to its full $2\frac{1}{4}$% between the Danish krone (7.2325) and deutschemark. The Italians sold $53mn., the Dutch bought $22mn.-worth of deutschemarks. The Swiss bought $30mn., although their DM cross-rate had reverted to 0.80 by the end of the day. The yen finished at 223.98.

Gold lost further ground this morning, easing back through the $400 level in the Far East and fixing in London at $395.75. There was some recovery this afternoon, despite the stronger dollar. The price was fixed at $398.75 and, when rumours were noised abroad of the assassination of the Libyan head of state, the metal briefly touched $400 again.

Operations:	Market	-	$43mn.
	Interest	+	11
	Sundries	+	5
		-	$27mn.
	Overnight	-	$43mn.

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JGH