

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 18th November 1981

The exchanges were much less active today with most German centres being closed for a day of atonement. The dollar eased back from yesterday's higher levels. Sterling, which met heavy selling in New York late yesterday, gradually recovered its poise. The ERI closed slightly higher at 90.3.

An active US corporate - known to have sold and bought pounds for deutschemarks in large amounts at times this year - unloaded a sizeable sterling position (again for deutschemarks) on New York's afternoon session yesterday. The pound fell sharply to 1.8850 (DM 4.23½) before recovering, as the dollar itself eased in response to the demand for deutschemarks, to 1.8932 at the close in New York. This morning the dollar began yet softer and gradually recouped some of those losses through a quiet morning. Sterling mirrored the dollar's performance, opening at 1.8975, trading up to 1.8995, then easing back progressively. In late morning the pound met some nervous selling - principally from clearing banks - on expectations of some reduction in Base Rates. The rate had fallen to 1.8910 by early afternoon but without any serious pressure. New York returned to sell dollars. Federal Funds, having opened around 13%, traded down very quickly to 12½%. The pound recovered in short order to around 1.90 and touched 1.9017 before closing at 1.9015. After the close the Federal Reserve executed repurchase agreements for system account and the dollar was marked down rapidly. Sterling was last seen at 1.9160. Three-month sterling deposits closed 3/16% firmer at 14 13/16% (after 15%) but the comparable Euro-dollar deposit was unchanged at 12 13/16%. The cost of cover was little changed at 1 13/16% p.a. so that the covered differential moved up to 3/16% in London's favour.

The pound was a fraction softer in Germany (4.26%), a touch firmer in France (10.77) and ½% better in Switzerland (3.42%). The Swiss franc was unchanged at 1.8017 (after 1.8122) and the Swiss swapped in \$421mn. The deutschemark firmed to 2.2435 and the French franc to 5.6637. EMS was 2½% spread between the Danish krone (7.21) and deutschemark. The Irish bought \$24mn. The yen continued to strengthen, closing at 222.32.

Gold touched \$404 in New York yesterday but was sold in the Far East this morning and was fixed in London at \$400.75. A large buying order in London, probably on official Middle East account, brought a recovery to \$405.50 but the later fixing set a level of \$403.75. Thereafter, despite the softer dollar, the metal tended slightly easier.

Operations:	Market	-	\$2mn.
	New Zealand	+	66
	Iran	+	15
	Interest	+	7
	IDA	+	5
	Sundries	+	3
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			+ \$94mn.
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	Overnight	+	\$4mn.
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