

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 19th November 1981

The exchanges fashioned a day of wide swings but without significant volume. The dollar was considerably weaker this morning, following yesterday's publication of a large decline in US housing starts, but this afternoon's strong upward revision to third quarter US GNP produced - perhaps illogically, since the upward revision owed much to involuntary inventory accumulation - a sharp recovery. Significantly, EMS currencies fared rather worse overall than others. Sterling's ERI rose from 90.3 to 90.6.

The pound continued to recover in New York yesterday and touched 1.9275 before closing at 1.9225. This morning the dollar started easier still. Sterling, however, opened at 1.9217 and traded close to this level throughout the morning never improving beyond 1.9255. Some early selling was seen from the Far East and a small commercial buyer was noted in London. By mid-day the dollar had recovered its earlier losses but sterling was still around the opening level. Early this afternoon, pounds were offered from the Middle East and the rate quickly declined. The first American professionals were sellers, too, and the pound traded down to 1.9117 before recovery on some solid Central Bank demand. Late in the day, the publication of the revision to US GNP sparked a strong rally for the dollar and sterling retreated to 1.9085 before closing at 1.9120. The three-months' forward discount widened by  $\frac{1}{2}\%$  to 15/16% p.a., reflecting a like decline in the Euro-dollar deposit to 12 11/16%. The intrinsic premium was thus unchanged at 3/16%.

The pound gained  $\frac{1}{8}\%$  in each of Zurich (3.43 $\frac{1}{2}$ ), Paris (10.80 $\frac{1}{2}$ ) and Frankfurt (4.28 $\frac{1}{2}$ ). The dollar finished slightly easier on balance in all these centres at 1.7980, 5.6525 and 2.24 respectively. EMS closed 2% in width between the Danish krone (7.2025) and deutschemark. The Dutch bought \$20mn., the French \$29mn. (half of which in deutschemarks). The Italians sold \$96mn. Elsewhere the Swedes spent \$36mn., while the Swiss swapped in \$435mn. The yen firmed to 219.92.

Gold was sold in New York yesterday and traded down to \$395.50 in the Far East this morning. As the dollar eased it recovered in Europe and was fixed at \$401 both this morning and this afternoon, only to retreat on the dollar's late recovery to a closing level of \$397.50.

Operations:	Market	-	\$15mn.
	Government	+	14
	BIS	+	8
	Interest	+	10
	Sundries	-	7
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		+	\$10mn.
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*JGH* 19th November 1981.

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