

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 24th November 1981

A similar day in some respects to yesterday saw the dollar decline this morning, while interest rates firmed, recover its poise this afternoon, as interest rates eased, but move sharply lower after the close, once Americans had adjusted their sights. Sterling found one buyer of substance but was otherwise idle and lost ground on the Continent. The ERI fell from 90.7 to 90.4.

Following sterling's sharp fall in yesterday's twilight hour (and the dollar's associated mark-up), little else occurred in New York and the pound finished there at 1.9035 (DM 4.28½). This morning, the dollar turned softer from the outset, the deutschemark leading the field. Sterling started at 1.9027 (DM 4.27¾), touched 1.9015 and advanced to 1.9050 before finding a range. Later this morning a large commercial buyer in Scandinavia drove sterling to 1.9090, the dollar weakening further in consequence, and, when the first Americans came in to sell dollars, the pound crested 1.91. New York domestic markets opened with Federal Funds at 11¼% and the Consumer Price Index increased by only 0.4% in October. The bond market rallied and the dollar eased further, sterling rising to 1.9157. Funds traded up to 12%, however, and the dollar recovered, notwithstanding that Prime Rates were reduced, at Chase Manhattan by ¾% to 15¾% and at Citibank and others by ½% to 16%. The pound retreated to 1.9093 before closing at 1.9125. Later American sellers re-appeared to drive the dollar much lower. Sterling was marked up to 1.9230. Three-month Euro-dollars finished fractionally easier at 12 5/16%, sterling deposits firmer at 14 15/16%. The forward discount widened only to 2 3/16% p.a. so that the covered differential rose to 7/16% in London's favour.

The pound yielded ¾% to the Swiss franc (3.42¼), ½% to the French franc (10.78¾) and ¾% to the deutschemark (4.27¾). The dollar weakened against all these to 1.7892 (later 1.7827), 5.6385 (later 5.6150) and 2.2335 (later 2.2257) respectively. EMS remained 2¾% spread between the Danish krone (7.1750) and deutschemark. The Bundesbank sold \$50mn. outright forward, the Italians bought \$49mn. and the French took in \$10mn. The Swedes spent \$33mn. The yen was little changed at 217.12 but later jumped to 215.60.

Gold recovered a little ground, fixing at \$398 and \$399.25, and briefly topping \$400 in the aftermath.

| | | |
|-------------|--------------|-----------|
| Operations: | Market | + \$37mn. |
| | Crown Agents | + 10 |
| | Interest | + 7 |
| | Iran | + 5 |
| | BIS | - 24 |
| | Sundries | + 1 |
| | | <hr/> |
| | | + \$36mn. |
| | | <hr/> |
| | Overnight | + \$8mn. |
| | | <hr/> |

JGH 24th November 1981.

JGH