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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 25th November 1981

The dollar was softer this morning following publication yesterday of an 8% decline in US durable goods orders in October. Later, however, there was some recovery which was dampened only by strong commercial demand for sterling. As a result, the pound scored gains against all currencies and the ERI rose from 90.4 to 91.2.

Sterling closed at 1.9302 yesterday in New York, where the dollar continued easier. This morning, the dollar staged some recovery - though Euro-dollars were softer - and sterling began at 1.9252. This proved the mid-point of the morning's range. A few small sellers were seen on the early exchanges but little else of note and the pound touched 1.9225 in late morning with the dollar at its best. Early this afternoon, however, a large UK exporter was joined by an aggressive German buyer (on oil company account). With the first Americans again small sellers of dollars, sterling rose sharply to 1.9370, pulling the dollar down in its wake. Federal Funds, however, opened at 12 $\frac{1}{8}$ % and traded up to 12 $\frac{3}{8}$ %. The dollar recovered, sterling falling to 1.9293. US domestic markets then assumed an air of uncertainty - partly on account of the impending holiday - and, with the dollar maintaining a firm undertone, it was nonetheless depressed by the continuing force of the earlier demand for pounds. Sterling advanced again to close at 1.9363. Three-month Euro-dollars were 5/16% softer at 12%. The inter-bank sterling deposit was $\frac{1}{8}$ % easier at 14 13/16%. The forward discount, however, widened by $\frac{3}{8}$ % to 2 9/16% p.a. so that sterling's intrinsic premium was reduced to $\frac{1}{4}$ %.

The pound gained $\frac{1}{2}$ % in Zurich (3.43 $\frac{1}{2}$) and $\frac{3}{8}$ % in each of Paris (10.87 $\frac{1}{2}$) and Frankfurt (4.30 $\frac{3}{4}$). The dollar was easier on balance in all these centres at 1.7750, 5.6162 and 2.2252. EMS narrowed to 2% in width between the Danish (7.1550) and German currencies. The Italians bought \$51mn., the Belgians sold \$6mn. Elsewhere the Swedes spent \$39mn. The yen advanced to 216.32, having earlier breached 215 in New York yesterday.

Gold enjoyed a rally, with bear covering evident ahead of the US holiday. Fixings were \$406 and \$409.50.

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|-------------|----------------------|---|-------------|
| Operations: | Market | + | \$44mn. |
| | SSEB | - | 75 |
| | (PSB G'teed) | | |
| | Interest | - | 16 |
| | (Public Sector Debt) | | |
| | IDA | + | 6 |
| | Sundries | - | 2 |
| | | | <hr/> |
| | | - | \$43mn. |
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