

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 27th November 1981

Continuing strong demand for sterling was the main feature of an otherwise unexceptional day. The dollar weakened in consequence, albeit somewhat reluctantly. Sterling's ERI rose from 91.3 to 91.9.

The pound met modest buying interest in the Far East this morning and opened in London nearly half a cent better at 1.9412. The opening exchanges were quiet with trading around the opening level, but sterling never fell below 1.9395. A regular Central Bank buyer eventually sparked the pound into life and, when he was joined by a familiar Dutch portfolio investment bank, the rate advanced strongly to 1.9475. A pause for breath was followed by a further rapid movement up to 1.9505. The demand evaporated, professional profits were taken and sterling backed off to 1.9470. By mid-day, however, the pound was around 1.95 as New York's dawn patrol took sterling. New York's opening saw another relapse to 1.9468 but the Chicago IMM came in as good buyers and when New York followed their lead later this afternoon, sterling surged to 1.9580 before closing at 1.9555. Three-month sterling deposits were $\frac{1}{8}\%$ firmer (14 $\frac{1}{8}\%$). Euro-dollars were unchanged (12 $\frac{1}{16}\%$), the forward discount fractionally wider (2 $\frac{11}{16}\%$ p.a.). The covered differential in London's favour rose slightly as a result.

The pound gained $\frac{1}{2}\%$ in Paris (10.92 $\frac{1}{8}$), $\frac{3}{8}\%$ in Frankfurt (4.33 $\frac{3}{8}$) and $\frac{1}{4}\%$ in Zurich (3.46 $\frac{3}{8}$). The dollar was a little softer in all these centres at 5.5850, 2.2185 and 1.7740 respectively. By London's close the French franc had replaced the Danish krone at the head of EMS, 1 $\frac{11}{16}\%$ distant from the deutschemark. The French and Dutch bought deutschemarks worth \$61mn. and \$22mn. respectively. The Italians sold \$24mn. and the Belgians \$38mn. (of which \$5mn. in guilders). The Swedes spent \$30mn., the Swiss swapped in \$230mn. The yen firmed to 215.50.

Gold continued relatively firm, drawing comfort from the pressure on the dollar. Fixings were at \$411.25 and \$411.50.

Operations:	Market	+	\$76mn.
	BIS	+	21
	Government	+	14
	Iran	+	7
	Sundries	-	2

+ \$116mn.

Overnight + \$24mn.

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