

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 30th November 1981

Sterling continued in strong demand this morning as the dollar weakened further. This afternoon, however, the dollar rallied as the bond market weakened in New York. Sterling was actively sold at times in a market that looked somewhat over-supplied. The ERI rose from 91.9 to 92.2 at noon today but fell this afternoon to close at 91.8.

The dollar continued to soften in New York on Friday and the pound advanced to close there at 1.9635. This morning sterling met strong demand from the outset, especially from the Far East and Continental Europe. The rate began the day at 1.9635 and quickly ran up to 1.9705 before the dollar rallied and profits were taken in sterling which retreated as quickly to 1.9605 before steadying around the opening level. Further demand was seen in mid-morning, both on London professional and Far Eastern official account, and sterling recovered to 1.9727 before consolidating around 1.97. Early Americans, too, bought sterling and the pound touched 1.9728 only to fall back once more as New York opened with the bond market easier. After pausing around 1.9675, sterling was sold quite forcefully from Swiss and American sources and the rate came back to 1.9585 before closing at 1.96. Later still the dollar was bid up again on a broad front and sterling declined to 1.9520 before rallying again to 1.9587. Three-month Euro-dollars (12%) were 1/16% easier, the sterling deposit (15%) 1/8% firmer. The cost of forward cover widened appropriately to 2 1/2% p.a. so that the covered differential remained modestly in London's favour.

The pound was a little weaker against both the Swiss (3.46 1/2) and French (10.91 1/2) francs and lost 3/8% to the deutschemark (4.32 1/2). The dollar eased against each of these to 1.7672, 5.5675 and 2.2052 (after 2.1985) respectively. The Swiss swapped in \$350mn. for a month, the Germans bought \$400mn. outright for later in December. EMS widened to 2 1/2%, the Danish krone regaining hegemony from the French franc which fell sharply from 2.51 1/2 to 2.52 1/2 to the deutschemark. The French took in \$21mn. and \$20mn.-worth of deutschemarks. The Dutch bought \$19mn. (half of which in deutschemarks) and the Belgians sold \$39mn., \$13mn.-worth of deutschemarks and \$3mn.-worth of guilders. The Italians sold \$53mn. Elsewhere the Swedes spent \$94mn. and the yen firmed further to 213.72.

Gold touched \$417 in Hong Kong before consolidating in London around \$415. The two fixings set levels of \$415.50 and \$414.50. Later, however, the metal was sold in New York and reached \$407.50 before steadying.

Operations:	Market	+	\$42mn.
	Interest	+	16
			<hr/>
		+	\$58mn.
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The result for November is an increase in reserves of \$147mn. to a level of \$23,463mn. after net repayments of public sector debt totalling \$107mn. The overbought forward position rose by \$12mn. to \$1,256mn.

*JGH*  
30th November 1981.

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