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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 1st December 1981

The dollar began the month with a strong rebound which owed much to another poor showing by the bond market and continuing tightness in Federal Funds. Sterling met further demand this morning, looked somewhat vulnerable in mid-session but finished strongly on the Continent. The ERI closed unchanged at 91.8, after rising this morning to 92.0.

With the dollar otherwise little changed, the pound regained around a cent in New York yesterday, closing there at 1.9667 (DM 4.34). This morning the dollar opened generally better and sterling started at 1.9607 (DM 4.33½). As yesterday, some early demand was evinced from Continental Europe and the pound traded up to 1.9632 before receding to opening levels. Official demand for dollars (against deutschemarks) then took the dollar better and sterling retreated fairly rapidly. Banks in London were selling pounds in anticipation of some reduction in base rates. Sterling declined to 1.9505 before steadying. This afternoon the dollar continued to advance apace. Federal Funds were trading around 13% and the bond market remained weak. The pound now fared rather better than most, falling to 1.9455 (but rising from DM 4.33 to 4.34) before closing at 1.9465 (DM 4.33½). The cost of three-months' cover narrowed by 5/16% to 2 9/16% p.a. as Euro-dollars firmed by 7/16% (12 7/16%) and sterling deposits by ½% (15 ½%). A small intrinsic premium remained.

The pound gained ¼% in France (10.94½) and Germany (4.33½) and ⅜% in Switzerland (3.47½). The dollar finished in these countries at 5.6212, 2.2273 and 1.7872 respectively. EMS remained 2½% spread between the Danish krone (7.1550) and deutschemark, although the Belgian franc (37.65) was at the base from time to time. The Bundesbank sold \$6mn. and \$350mn. outright forward, while swapping in \$1,350mn. for a week to provide liquidity. The Belgians shelled out \$28mn., \$8mn.-worth of guilders and \$7mn.-worth of Danish kroner, the French sold \$35mn. and swapped out \$85mn., and the Italians spent \$30mn. The Danes bought \$4mn. and the Dutch took in \$10mn. and \$12mn.-worth of deutschemarks. Elsewhere, the Swiss swapped in \$480mn. over the year-end; the yen weakened to 216.52.

Gold drifted lower throughout the day as the dollar strengthened. Fixings were \$405 and \$402.50.

Operations:	Market	-	\$17mn.
	National Water Council	+	38
	(PSB G'teed)		
	Interest	+	9
		+	\$30mn.

*JGH* 1st December 1981.

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