

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 4th December 1981

The 1% reduction in Discount Rate (to 12%) by the Federal Reserve late yesterday sent the dollar lower today but the decline was gradual and orderly and of no great magnitude. Sterling fared quite well but was not heavily traded. The ERI rose from 91.4 to 91.9.

The pound closed a cent better at 1.9440 in New York yesterday and opened at 1.9477 this morning. The early exchanges were quiet. The pound dipped to 1.9460 but some modest demand from Swiss and London professionals later took the rate to 1.9536 before it settled down around 1.95 for the rest of a quiet morning. New York took the dollar a little lower still. Sterling saw two-way business but the buyers were marginally predominant and the rate reached 1.9555 at one stage. Towards the close, however, the dollar recovered somewhat and sterling relapsed to finish at 1.9515. Three-month Euro-dollars shed $\frac{3}{8}\%$ at $12\frac{3}{8}\%$. The sterling deposit lost $\frac{1}{8}\%$ ($14\frac{1}{2}\%$). The forward discount widened to 2 1/16% p.a. and sterling's intrinsic premium rose to 5/16%.

The pound regained $\frac{1}{8}\%$ in Switzerland (3.48 $\frac{1}{2}$) and Germany (4.33 $\frac{1}{2}$) and $\frac{3}{8}\%$ in France (10.94 $\frac{1}{2}$). The dollar closed in these countries at 1.7845, 2.2200 and 5.6075 respectively. EMS was fully-stretched throughout the day between the Danish krone and Belgian franc (37.79). The Danes bought \$9mn.-worth of Belgian francs, the Belgians sold a varied cocktail worth \$106mn. (half of which in dollars). The Italians sold \$30mn. The French bought deutschemarks worth \$13mn., the Dutch took in \$25mn. and \$11mn.-worth of deutschemarks. Elsewhere the Norwegians bought \$43mn. and the Swedes spent \$8mn. The yen firmed to 215.77.

Gold was bid up in Hong Kong this morning to \$423.50 and passed most of an active day in a tight range around that level. Fixings were \$423.50 and \$426.

Operations:	Market	+	\$5mn.
	Iran	+	5
	Sundries	-	1
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		+	\$9mn.
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	Overnight	-	\$15mn.
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