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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 8th December 1981

A substantially firmer dollar provided the backdrop to today's tableau on the exchanges. The Swiss franc, for the most part, was the protagonist and received a rough handling from critics in official and professional circles. The pound remained in the wings for some time but was eventually drawn onto centre stage by the relative prominence of its performance. The official agents ensured a minor part only for the deutschemark, but the French franc, cast perforce in a supporting role for its Belgian neighbour, took a panning in consequence. Sterling's ERI dipped from 91.9 to 91.7, after posting 92.0 this morning.

The pound swung widely in New York yesterday, falling sharply to 1.9325 before recovering forcefully to close at 1.9440 (and DM 4.35 $\frac{1}{4}$). This morning, the dollar tended firmer from the outset but sterling performed relatively well, despite a brace of commercial sellers. The pound opened at 1.9442, touched 1.9445 then eased back to trade around 1.94 for some time (rising in the process to DM 4.35 $\frac{1}{4}$). This relative strength attracted professional sellers in mid-morning and the pound retreated to 1.9330 before steadying. Early this afternoon the dollar surged again and sterling was sold down to 1.9180. The IMM were prominent players at levels below 1.93. Finally the dollar itself turned, prompted severally by a rate well in excess of DM 2.25, a modest downturn in Federal Funds (from 12 $\frac{1}{2}$ % to 11 $\frac{3}{8}$ %) and a slight turn for the better in a demoralised bond market. Sterling recovered smartly to close the day at 1.9305. Three-month Euro-dollars were $\frac{3}{8}$ % better bid at 12 $\frac{3}{8}$ %, the sterling deposit a fraction firmer at 14 $\frac{3}{8}$ %. The forward discount narrowed only to 2 1/16% p.a. so that sterling's intrinsic premium was reduced to modest proportions.

The pound lost $\frac{1}{8}$ % to the deutschemark (4.33 $\frac{3}{8}$) but gained $\frac{1}{8}$ % on the French franc (10.98 $\frac{1}{2}$) and $\frac{1}{8}$ % on the beleaguered Swiss franc (3.51 $\frac{1}{2}$). The last of these met heavy selling from Central Bank and US commission house sources and touched 1.8297 before closing at 1.8215. Against the deutschemark it eased from 0.80 $\frac{3}{8}$ to 0.81 $\frac{1}{8}$. The deutschemark drew \$130mn. of support from the Bundesbank (who also swapped in \$450mn. for a few days to ease domestic liquidity) but still traded down to 2.2564 before closing at 2.2460. EMS closed fully-stretched between the Danish (7.26) and Belgian (38.29) currencies. The Danes bought \$4mn.-worth of Belgian francs but the Belgians sold their usual mixed bag worth \$145mn. in total and including \$130mn.-worth of French francs. With the French also buying \$32mn.-worth of Belgian francs (and swapping out \$60mn.), the French franc suffered, falling to 5.6905 and 2.53 $\frac{3}{8}$ to the deutschemark. The Dutch took in \$16mn.-worth of deutschemarks. The yen eased to 217.80.

Gold was remarkably steady in the face of the dollar's strength. Fixings were \$417.25 and \$415.25. By the close the metal was around \$420.

Operations:	Market	-	\$10mn.
	Post Office	+	59
	(PSB G'teed)		
	India	+	10
	Interest	+	6
	Government	-	6
	Sundries	+	1
		+	\$60mn.

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