

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 9th December 1981

Today's exchanges uncovered a mosaic not dissimilar to that of yesterday. The dollar continued firmer but found a natural barrier in Germany. The Swiss franc, pound and yen, however, continued to cede recent gains. Sterling's ERI fell from 91.7 to 91.3.

The pound closed quietly at 1.9322 in New York yesterday and opened at 1.9292 this morning. The dollar tended firmer on the early exchanges and, with the Far East selling sterling, the pound moved down to 1.9225. The DM level in Germany occasioned profit-taking in dollars and sterling recovered to 1.9275 but London professionals then sold the currency back to 1.92 in mid-morning before a trading level was established around 1.9225. Early Americans sold dollars and sterling recovered to 1.9305. Federal Funds, however, opened relatively tight at 12 $\frac{1}{2}$ % and the US Producer Price Index (+0.5%) did not match up to expectations. The dollar thus recovered somewhat and the pound dipped again in light volume to close at 1.9233. Three-month sterling deposits closed 3/16% firmer (15 1/16%) while comparable Euro-dollar deposits gained 1/16% (12 11/16%). The forward discount widened by only 1/16% to 2 $\frac{1}{2}$ % p.a. so that the covered differential rose to $\frac{1}{2}$ % in London's favour.

The pound gained a further $\frac{1}{2}$ % in Switzerland (3.52 $\frac{1}{2}$) but lost $\frac{3}{8}$ % in both France (10.91 $\frac{1}{2}$) and Germany (4.31). The Swiss franc lost further ground to the dollar at 1.8325, the Swiss swapping in \$900mn. The deutschemark improved to 2.2410 (after 2.2525). The Bundesbank sold \$17mn. and swapped in \$450mn. for a few days. The Belgian franc (38.32) became increasingly isolated from the rest of EMS, closing more than 1% below the deutschemark and the full 2 $\frac{1}{2}$ % distant from the leading Danish krone. The Belgians sold \$12mn.-worth of Danish kroner. The French franc (5.6770) and Dutch florin (2.4510) moved to within an ace of the top of the pack, the Dutch buying \$25mn. As a result of all this, the Belgian franc finished at 74 on the index of divergence. The yen eased to 218.40.

Gold touched \$421 in New York yesterday before declining rapidly to close below \$410. After continuing softer in London this morning, the metal was fixed at \$408.25, recovering thereafter to \$410.25 at the later fixing. By the close, however, the price was back to around \$407.

Operations:	Market	+ \$2mn.
	New Zealand	+ 77
	National Water Council	+ 23
	(PSB G'teed)	
	Sundries	+ 4
		<hr/>
		+\$106mn.
		<hr/>

9th December 1981.

JGH

Bank