SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 10th December 1981

Today was bleak for sterling on the exchanges. A combination of sharply higher Euro-dollar rates, a possible fall in oil prices and looming troubles on the labour front at Fords and in the mines precipitated widespread selling. Turnover was heavy but not entirely one-way as at least one large commercial buying order was engulfed in the wave of selling. The dollar was very firm on interest rate considerations and the Belgian franc became the subject of devaluation rumours in the EMS. The Japanese followed last week's moves in Europe and the US by cutting their discount rate by ¾%. Sterling's ERI fell 1.0 to 90.3.

Sterling was depressed in New York last night by rumours that the forthcoming OPEC meeting might lead to lower oil prices and it lost almost a cent to close at 1.9142 against a slightly firmer dollar. The opening rate in London of 1.9163 was the high for the day as some professionals in London commenced the assault. With the dollar looking likely to go higher on firmer Euro-dollar rates but the Bundesbank resolutely defending DM 2.25, sterling (and at first the Swiss franc) came under pressure. The rate fell steadily in early business, pausing for a while around 1.9075 before a second attack, which now included some commercial sellers, took it down to 1.9025 in late morning. With New York also looking to buy the dollar, further pressure developed over the lunch period and in active trading sterling fell, moving back through 1.90 to 1.8940 before steadying a little with the help of some official support. Although there was a brief recovery to 1.90 during the afternoon, when some commercial demand was apparent, the depressed state of the New York bond market (which again put in a poor performance) and the high level of Fed Funds (12¼%) helped Euro-dollar rates to move higher and kept pressure on the pound. The rate touched 1.8925 before closing at 1.8955. Three-month Euro-dollar deposits closed ½% higher at 13 3/16%. With sterling interbank rates only ⅛% firmer at 15 3/16%, the forward discount narrowed to 2 1/16% and interest parity prevailed.

The pound fell sharply in Europe, losing 1% in Germany (4.26⅝) and France (10.83⅛) and ⅝% in Switzerland (3.50¼). The dollar was firmer in all these centres at 2.2510, 5.7142 and 1.8480 respectively. The Bundesbank sold $50mn. and the deutschemark moved higher, to mid-way, in the EMS band. The Belgian franc (38.61) became even more isolated at the bottom of the arrangement and by the London close was 2⅜% distant from the top currency, the Danish crown (7.3152) despite sales of a package of currencies (principally French francs) totalling $218mn. The French bought Belgian francs worth $28mn. and the Dutch bought $42mn. and Belgian francs worth $7mn. The long-expected cut in Japanese discount rate (down ¾% to 5½%) had little impact on the yen which closed at 218.62.

Gold traded quietly at the lower end of the recent range, depressed by the strength of the dollar. Fixings were at $407 and $405.50.

Operations:	Market	-	$79mn.
	Sundries	+	10
		-	$69mn.

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