SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 11th December 1981

A blizzard of orders to sell sterling brought an icy opening to today's markets. It started in the Far East and quickly travelled west, as operators - professional, commercial and official alike - saw interest rate differentials continuing to narrow and reflected on the probabilities of a winter of industrial discontent. Yamani's reference to the proximity of agreement in OPEC to an oil price cut was another chilling factor whilst the reluctance of market makers to become too involved in the run up to the end of 1981 was a further bear point. The ERI, after 89.7 at noon and an unpublished 89.5 soon afterwards, closed 0.5 lower on the day at 89.8. The dollar took strength from much firmer Euro-dollar rates. In spite of a rise of 2% in discount rate, the Belgian franc was another currency in difficulty.

Yesterday's storm blew itself out in New York and sterling had recovered by the close to 1.90. Far East selling earlier today meant that when London opened the pound was at 1.8922. It made one move upwards, to 1.8955, but slid quickly to 1.8845 as selling came out of most centres and varied sources. There was a temporary return to 1.8935 as official intervention was felt but the sellers regrouped and by noon the rate had fallen to 1.8810. Not surprisingly, the opening of North American markets precipitated a further sharp decline, to 1.8740; with the dollar then weakening in Europe the pound recovered to close at 1.8817. Later, however, it had drifted back below 1.88. Euro-dollars were sharply higher and the three months' rate rose to 13⅝%: the development of the US bond market yesterday could not have been responsible and the guess is that there are special demand factors at work - perhaps the new IBFs and the Euro-dollar futures market, as well as end-year considerations. Sterling interbank failed to keep pace, closing at 15 9/16%, but with the forward discount narrowing for sterling, a covered premium of ⅛% re-emerged in London's favour.

In Europe the pound continued to slip down, particularly in Swiss franc terms - 3.46¼; in Germany, having touched 4.23⅛, it closed at 4.24⅝ and in France at 10.81 1/16%. The dollar gained ground except in Switzerland, where the franc rallied to 1.84. Within EMS the Belgian franc (38.78) was given $246mn. of support by the National Bank, mostly in French francs, and received a further $22mn. of help in France, $47mn. in Holland and $11mn. in Denmark - making a total of $326mn. today. The Belgian currency (89 on the divergence indicator) is now stranded at the bottom of the fully-stretched system, all other participants having moved into a band under ¾% wide. The florin is at the head tonight at 2.4762, just above the French franc (5.7450); the French were sellers of $30mn. and deutschemarks worth $13mn. The yen was steady, closing at 218.92; however, the Bank of Japan sold $29mn. in New York on Thursday evening.

Gold eased to $403.25 in New York at one time last night but had a steady day in London, recovering in early trading and fixing at $409 and $409.75.

Operations:	Market	-	$140mn.
	Sundries	+	5
		-	$135mn.
	Overnight	-	$28mn.

DAHB.

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