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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 14th December 1981

The effects of imposing martial law in Poland were felt far beyond the zloty market this morning. The dollar started off significantly higher, particularly against the deutschemark, but it failed to hold on to the better levels. Sterling turned in a similar performance and the ERI declined to 89.6 (after 90 at the opening).

In New York on Friday evening there was further selling of pounds: the rate closed at 1.8685. It opened at 1.8535 this morning and strengthened to 1.8747 in early trading before easing back to 1.8620 at noon. Rate movements were less erratic during the afternoon but the pound moved easier, falling to 1.8530 before closing at 1.8590. Business appeared to be light. Part of the dollar's strength stemmed from the \$4bn. increase in M1B, reflected in very much higher Euro-dollar rates: three-months opened at 14½%. As the day wore on, however, there was a steady easing and the same period closed at 13¾%. With sterling interbank at 15¾% interest parity again prevailed on a covered basis.

The pound was a touch softer in Switzerland, where it closed at 3.45 9/16, but it picked up nearly ½% in Germany (4.26 7/16) and ¼% in France (10.84). The deutschemark bore the brunt of the dollar's advance losing over 1½% to close at 2.2940 (having ranged between 2.3305 and 2.2807 today) and being given \$80mn. of support by the Bundesbank. EMS narrowed sharply to 1½% and gave the Belgian franc (39.02) some breathing space; the Danish krone ended top at 7.4550, the Danes having sold \$21mn. The Dutch bought \$9mn. of deutschemarks. The French franc eased to 5.8312, the Swiss franc to 1.8590. Official support for the yen has been intensified: \$92mn. was spent in New York on Friday, a further \$194mn. in Tokyo this morning. In London it closed at 221.50, having opened one yen higher.

Gold surged briefly to \$430 in the Far East on the news from Warsaw but had declined \$10 by London's opening. Business was brisk with the fixings at \$419.25 and \$417.50.

Operations:	Market	-	\$1mn.
	BIS	+	19
	India	+	9
	Sundries	-	5
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			+ \$22mn.
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	Overnight	-	<u>\$19mn.</u>

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