

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 17th December 1981

Yesterday's calmer trading continued this morning, as did the slight appreciation of the dollar and the pound. Soon after midday, however, two fair-sized selling orders appeared coincidentally, one from Central and one from South America. In consequence, sterling weakened and the ERI fell to 90.1 (after 90.4).

New York was inactive yesterday and sterling closed there at 1.8910. Modest demand in London today, possibly for Soviet account, took it from 1.8922 at the opening to 1.8972 but the appearance of selling orders totalling £75mn. brought a reaction this afternoon. The rate closed at 1.8855 after 1.8852. Eurodollars opened surprisingly bid and on balance hardened further during the day. Three months' money closed at 13¼%. Sterling interbank was unchanged and the covered differential narrowed to ¼% in London's favour.

Not surprisingly, the pound eased in Europe: to 4.28½ in Germany, 10.84 in France and 3.44½ in Switzerland. The dollar was mixed, being little changed in Germany (2.2740) and Switzerland (1.8250) but improving notably in Scandinavia and Belgium: the franc eased about 1½% to 38.34 as the short-date squeeze lost its force. EMS narrowed to 1½% with the French franc (5.7495) taking over the top position, the deutschemark remaining the weakest. Intervention was light: the Germans sold \$21mn., the French bought \$16mn., the Swiss bought \$50mn. The yen moved very little, closing at 217.95.

Gold was fairly steady but offerings of metal increased this afternoon. Russian selling is now persistent. Fixings were at \$418 and \$416.25.

Operations:	Market	+	\$4mn.
	Interest	+	6
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		+	\$10mn.
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