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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 21st December 1981

Thin markets and ready, commercial sellers of sterling again characterised the exchanges today. The main feature was a sizeable buyer of deutschemarks (for pounds) which counteracted an early, firmer tendency for the dollar, following disappointing statistics on US money supply. Sterling survived the selling pressure and the ERI finished unchanged at 90.0.

The pound recovered strongly to close at 1.8870 on Friday in New York, where the dollar was generally somewhat easier. This morning, given the weekend's developments in Poland and the unexpected increase in M1B, the dollar opened a good deal firmer. Sterling began at 1.8765 and traded up to 1.8825 as the dollar receded from best levels. By mid-morning, commercial selling pressure had the pound edging lower and it was traded down to 1.8780. As the dollar eased early this afternoon, however, sterling rebounded to 1.8847 before closing quietly at 1.8805. Three-month Euro-dollar and sterling deposits were each 3/16% firmer at 13 11/16% and 15 15/16% respectively. The cost of cover widened to 1 15/16% p.a. so that the covered differential widened to 5/16% in London's favour.

The pound lost 1/8% in France (10.82) and Germany (4.28 1/2) and 3/8% in Switzerland (3.41 1/2). The dollar eased in these countries to 5.7537, 2.2787 and 1.8175 respectively. EMS widened to 1 7/16% between the French franc and deutschemark. The Bundesbank sold \$10mn. at the fixing. The French bought \$42mn.-worth of deutschemarks and \$46mn., swapping out \$50mn. The Italians took in \$59mn. The Danes spent \$10mn. Elsewhere the Norwegians bought \$40mn. (forward) and the Swiss took in \$60mn. but the Japanese sold \$20mn., bringing the yen to close at 220.15 in Tokyo. It later rose to 219.67 in London.

Gold turned progressively softer over the day. Fixings were \$413.75 and \$410.50 and the close was around \$407.50.

Operations:	Market	+ \$5mn.
	Government	+ 12
	Iran	+ 12
	Iraq	+ 9
	Sundries	+ 10
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		+ \$48mn.
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