

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 29th December 1981

A quiet day on the surface, with little movement in rates, concealed some sizeable volume, in sterling at least. Since Christmas Eve, the dollar, pound and yen have eased together against the European currencies. Sterling's ERI dipped from 90.6 to 90.5.

The pound was traded up to 1.9010 yesterday morning before modest American selling brought it back to close little changed in New York at 1.8910. This morning sterling opened at 1.8920 and touched 1.8955 on the early exchanges as demand was seen from Continental Europe. A large selling order was then executed in London and absorbed with little difficulty, the rate settling around opening levels which were maintained into the afternoon. Some modest Central Bank buying interest was noted. New York's return brought an opening Federal Funds rate of 12 $\frac{3}{4}$ %, rising soon to 13%, and the dollar recovered somewhat from earlier depressed levels. Sterling was marked back to 1.8880 before closing at 1.8895. The cost of three-months' cover was unchanged at 1 $\frac{3}{8}$ % p.a. Three-month Euro-dollars, however, closed $\frac{1}{4}$ % softer at 13 15/16% while the comparable sterling deposit was only a touch softer at 15 15/16%. The covered differential thus rose to $\frac{3}{8}$ % in London's favour.

Over the last two days the pound has in all lost $\frac{1}{2}$ % in Paris (10.85 $\frac{1}{2}$) and Zurich (3.41 $\frac{1}{4}$) and $\frac{3}{8}$ % in Frankfurt (4.29 $\frac{1}{4}$) The dollar eased by a similar degree in these centres to 5.7450, 1.8085 and 2.2717 respectively. The Swiss bought \$40mn. and deutschemarks worth \$44mn. EMS was 1 $\frac{1}{4}$ % spread between the French and Belgian (38.44) francs with the lira (1210.25) only a whisker from first place and the deutschemark hovering marginally above the bottom. The French took in \$51mn.-worth of deutschemarks and swapped out \$30mn. The Italians sold \$162mn. yesterday but recouped \$16mn. in operations undertaken today. The Dutch sold \$14mn. and \$25mn.-worth of deutschemarks over the two days, while the Danes spent \$38mn. Elsewhere the Swedes lost \$89mn. The Japanese sold \$68mn. in all on Friday and Monday but were idle this morning. The yen weakened to 222.60 in New York yesterday but recovered to 221.82 today.

Gold was sold down in New York yesterday. An attempted recovery - fixings were \$396.25 and \$395 - was halted by further American selling and the metal finished at \$394.50, not far from yesterday's low point.

Operations:	Government	-	\$38mn.
	BIS	+	19
	IDA	+	10
	Interest	+	10
	Sundries	+	2
		-	\$3mn.

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