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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 31st December 1981

The year ended quietly on the exchanges. A late surge took the deutschemark better against all others but there was otherwise little movement, the dollar retaining a slightly softer undertone. Some early firmness in sterling evaporated when commercial sellers appeared. The new ERI closed unchanged at 90.9 (roughly 12½% down on the equivalent level of a year ago).

The pound closed at 1.9107 in New York yesterday and opened at 1.9120 this morning rising gently to 1.9162 at best on modest demand from London and Paris. The more exalted levels brought out a steady stream of small commercial sellers and sterling relapsed to around 1.91, briefly touching 1.9052 early this afternoon before closing at 1.9110. This represents a decline of 25% from last year's 2.3920. Three-month Euro-dollars were ¼% easier at 13¾% while comparable sterling deposits were unchanged (15¾%). The forward discount widened by only 3/16% to 1 9/16% p.a. so that sterling's intrinsic premium rose to 7/16%.

The pound was fractionally firmer in France (10.92½) and Switzerland (3.43½) but lost ¼% in Germany (4.29). In the last year it has lost 9¾% to the deutschemark (then 4.69½) and 24% to the Swiss franc (then 4.25½) but gained nearly 1% on the French franc (then 10.82). The dollar eased to 2.2447 against the deutschemark (14¾% better than last year's 1.9620), 1.7960 against the Swiss franc (less than 1% up on last year's 1.78) and 5.7150 against the French franc (26½% higher than the 4.52½ of a year ago). The Belgian franc (38.50) finished this year (as it did the last two) at the bottom of EMS, 1½% distant from the next ranking deutschemark and 2 3/16% from the leading lira (1200.50). The Belgians sold a cocktail worth \$14mn. The yen closed little changed at 219.55, 8% weaker than a year ago (203.15).

Gold was steady and the only fixing this morning set a level of exactly \$400, some 32% cheaper than last year's \$589.50.

Operations:	Market	+	\$1mn.
	New Zealand	+	77
	Sundries	-	2
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		+	\$76mn.
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The result for December is a fall in reserves of \$116mn. to a level of \$23,347mn., after public sector and government debt repayment (net) of \$20mn. The overbought forward position was reduced by \$40mn. to \$1,216mn.

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