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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 4th January 1982

The New Year on the exchanges began as many had predicted, the dollar weakening behind a marked decline in Euro-dollar deposits. This afternoon, however, Federal Funds obstinately refused to validate the earlier trend in the Euro-dollar market and the dollar recovered somewhat. Sterling meanwhile attracted some keen buying interest this morning and the ERI advanced from 90.9 to 91.3 (after 91.5 at mid-day).

The pound closed at 1.9120 in New York on New Year's Eve but opened at 1.9210 this morning, following two sizeable buying orders in the Far East, and traded on up to 1.9265 on the early exchanges. A large buyer in London then declared his hand (in advance of coming to market) and sterling was bid up strongly to 1.9370 in late morning. Central Bank interest from more than one source was also noted at the time. With the large buyer satisfied, the rate receded and, when Federal Funds opened at 13% this afternoon, the dollar turned generally firmer and sterling backed off to 1.9265 before closing at 1.9275. Three-month Euro-dollars were 7/16% softer (13 5/16%), sterling deposits 1/2% easier (15 1/2%). The forward discount, however, widened by 5/16% to 1 7/8% p.a. so that sterling's intrinsic premium fell to 5/16%.

The pound gained 3/8% in Frankfurt (4.30 3/8%) but was a touch softer in Paris (10.90 3/8%) and Zurich (3.43). The dollar eased in these centres to 2.2328, 5.6595 and 1.7797 respectively. EMS was 1 13/16% spread between the French and Belgian (38.05) francs. The lira held sway for much of the day but, following some relaxation in the Italian import deposit requirements, it fell away, drawing \$295mn. of support from the Banca d'Italia. The Dutch bought \$30mn. The Danes sold \$9mn. and the Irish \$14mn. The yen hardened to 218.22.

Gold failed to respond to the dollar's early weakness and was fixed this morning at \$399. This afternoon, however, the metal wilted as the dollar recovered and the later fixing set a level of \$395.

Operations:	Market	+	\$19mn.
	BIS o/a Nigeria	+	29
	IDA	+	9
	Interest	+	7
	Bangladesh	-	20
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		+	\$44mn.
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	Overnight	+	\$10mn.
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