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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 5th January 1982

The dollar rebounded with a vengeance today as a quite unexpected increase in the US monetary aggregates triggered a rapid reversal of yesterday's decline in Euro-dollar rates. Sterling was a good market and, while sellers were preponderant, was never in difficulty, resisting the dollar's riposte as well as any other save the yen. The ERI rose from 91.3 to 91.4 (after 91.6 this morning).

The pound recovered to 1.9320 at the close in New York yesterday, although the dollar was otherwise somewhat firmer, following a late reduction in deposit rates in Switzerland. This morning, the dollar began sharply firmer, as the market reacted to the increase in the monetary aggregates. Sterling opened at 1.9287 and, after briefly touching 1.9290, eased back by a cent as early buyers squared positions. Modest two-way business characterised the rest of the morning, the pound moving never far from 1.92. Early Americans bid the dollar aggressively and sterling was sold in size, touching 1.9155 before recovering again. A late surge by the dollar, however, took sterling back to 1.9135 before the close came at 1.9160. Later still, the pound was sold down to 1.9090. Three-month Euro-dollars were $\frac{1}{2}\%$ firmer at 13 13/16%, sterling deposits fractionally harder at 15 9/16%. The cost of cover narrowed by $\frac{3}{8}\%$ to $1\frac{1}{2}\%$ p.a. and sterling's intrinsic premium fell to $\frac{1}{4}\%$.

The pound gained $\frac{5}{8}\%$ against the deutschemark (4.33 $\frac{1}{2}$), $\frac{3}{8}\%$ against the French franc (10.98 $\frac{1}{2}$) and 1% against the Swiss franc (3.46 $\frac{1}{2}$). The dollar advanced against these currencies to 2.2607, 5.7355 and 1.8082 respectively. EMS closed 1 15/16% in width between the lira (1204.90) and Belgian franc (38.50). The Italians nonetheless spent \$139mn. as their outflow continued. The Irish sold \$8mn., the Dutch bought \$4mn.-worth of deutschemarks. The Swedes spent \$40mn. The yen eased to 219.45.

Gold enjoyed a modest technical rally. Having rebounded to \$404.50 in New York yesterday, it was fixed at \$400.75 and \$403.50 today. Later, despite the strength of the dollar, the metal was bid up to \$407.75 before relapsing again to \$401.75.

Operations:	Market	+	\$6mn.
	India	+	10
	Bangladesh	-	12
	Sundries	+	1
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		+	\$5mn.
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