

SECRET

THE DEPUTY GOVERNOR

*Handwritten initials and a large flourish.*

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 6th January 1982

A day of little consequence on the exchanges found the dollar somewhat easier, as interest rates declined. Sterling could not live up to some early promise. The ERI rose from 91.4 to 91.5 after 91.7 this morning.

Federal Funds eased substantially (from  $13\frac{1}{2}\%$  to  $11\frac{1}{2}\%$ ) in New York's afternoon yesterday and the dollar softened in consequence. Sterling advanced from its low point of 1.9090 to 1.9252 at the close. This morning, Euro-dollars were  $\frac{1}{8}\%$  lower and the dollar began considerably cheaper still. The pound opened at 1.9295 and rose to 1.9320 before running into selling from the Middle East. Sterling settled around 1.9250 and traded close to that level for the rest of the day, touching 1.9220 shortly before closing at 1.9235. Three-month Euro-dollars lost  $\frac{3}{8}\%$  ( $13\frac{7}{16}\%$ ), sterling deposits  $1/16\%$  ( $15\frac{1}{2}\%$ ). The cost of cover widened by  $\frac{1}{8}\%$  only to  $1\frac{3}{8}\%$  p.a. so that the covered differential rose to  $7/16\%$  in London's favour.

The pound gained  $\frac{1}{4}\%$  in Switzerland ( $3.47\frac{1}{2}$ ) but lost  $\frac{1}{8}\%$  in France ( $10.97\frac{1}{8}$ ) and  $\frac{1}{4}\%$  in Germany (4.32). The dollar eased in these countries to 1.8065, 5.7037 and 2.2461 respectively. EMS was  $1\frac{11}{16}\%$  stretched between the French and Belgian (38.31) francs. The Belgians reduced Discount Rate by 1% to 14% and Lombard Rate by 2% to 15%, both with effect from tomorrow. They also spent \$30mn. and \$2mn.-worth of florins. The Italians bought \$125mn. and the Dutch \$10mn., but the Irish sold \$22mn., the Danes \$21mn. and the Germans \$4mn. The yen (219.40) was barely changed.

Gold was a quiet market. Fixings were \$402 and \$401.50.

Operations:	Market	+	\$12mn.
	Government	-	6
	Sundries	-	2
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		+	\$4mn.
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*JGH*

6th January 1982.  
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