

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th January 1982

US credit markets see-sawed once again yesterday when the Federal Reserve unexpectedly drained funds from their domestic system. Interest rates rose in consequence and the dollar turned in a buoyant performance on the exchanges today. Sterling traded comfortably with some commercial demand in evidence. The ERI rose from 91.5 to 91.7.

With the dollar generally better in New York yesterday, sterling retreated to close there at 1.9182. This morning, eurodollars started the day around $\frac{1}{4}\%$ firmer and the dollar began very much better bid. Sterling, however, was marked down no lower than 1.9157 and, after touching 1.9115 on the early exchanges, stayed close to the opening level through the day. Several small commercial buyers were reported and the pound touched 1.9165 at best before closing at 1.9160. Three-month eurodollars were firmer by 5/16% ($13\frac{3}{4}\%$), while sterling deposits were unchanged ($15\frac{1}{2}\%$). The forward discount narrowed by only 3/16% to $1\frac{7}{16}\%$ p.a. so that sterling's intrinsic premium fell to 5/16%.

The pound gained $\frac{1}{4}\%$ in Paris ($11.00\frac{1}{2}\%$), $\frac{3}{8}\%$ in Frankfurt ($4.33\frac{1}{2}\%$) and $\frac{1}{4}\%$ in Zurich ($3.50\frac{1}{2}\%$). The dollar hardened in these centres to 5.7432, 2.2628 and 1.8272 respectively. EMS remained $1\frac{11}{16}\%$ spread between the French and Belgian (38.56) francs. The Irish sold \$5mn., the Germans \$10mn., the Belgians \$71mn. and the Italians \$130mn. The yen weakened to 221.72 (after 222) and the Japanese spent \$36mn. in Tokyo this morning.

Gold was fixed at \$396.25 and \$396.50. This morning saw a very active two-way market before the fixing. After the fixing this afternoon, good physical demand, probably from the Middle East, brought the metal to \$398.50.

Operations:	Market	+ \$2mn.
	Interest	+ 17
	Sundries	+ 3
		<u>+ \$22mn.</u>
	Overnight	<u>+ \$12mn.</u>

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