

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 11th January 1982


Continuing disappointment with the performance of the US monetary aggregates and further upward pressure on interest rates made for a very firm dollar today. Sterling looked a little vulnerable at times in the face of some substantial selling. The ERI fell from 91.8 to 91.1.

The pound fell two cents in New York on Friday, on selling by both the IMM and corporate customers. It closed there at 1.9025 against a dollar which was generally a good deal firmer. M1B fell by \$1.4bn. but many had hoped for a rather larger decline and Euro-dollars opened firmer this morning. The dollar strengthened further in the Far East but sterling opened in London at 1.9027 and touched 1.9050 before finding a level around 1.90. Early this afternoon a large Swiss seller drove sterling down to 1.8925 and the dollar subsequently strengthened in sympathy. Federal Funds in New York opened firmer and moved up to 12 $\frac{3}{8}$ %, the dollar hardening yet further. Sterling traded around 1.8950 for most of the afternoon, dipping again to 1.8925 before closing at 1.8935. Later, however, the pound was sold down to 1.8855. Three-month Euro-dollars were firmer by  $\frac{3}{8}$ % at 13 15/16%, sterling deposits  $\frac{1}{8}$ % harder at 15 $\frac{1}{2}$ %. The cost of cover narrowed by 3/16% to 1 5/16% p.a. and the covered differential fell to  $\frac{1}{2}$ % in London's favour.

The pound lost  $\frac{3}{8}$ % in Zurich (3.50 $\frac{1}{4}$ ),  $\frac{3}{8}$ % in Frankfurt (4.31 $\frac{1}{8}$ ) and  $\frac{1}{2}$ % in Paris (10.94 $\frac{3}{8}$ ). The dollar was firmer by 1% and more in each of these centres at 1.8495, 2.2805 and 5.7810 respectively. EMS remained 1 11/16% in width between the French and Belgian (38.82) francs. The Italians sold \$28mn., the Germans \$2mn. Outside the system, the Swedes spent \$33mn. and the Japanese \$73mn. The yen eased to 222.95.

Gold was sharply lower in New York on Friday and lost further ground in the Far East this morning. The morning session in London was unexceptional and the price steady. The fixing was \$392. This afternoon saw further erosion. The market was not active but the price drifted inexorably lower, touching \$386.50 shortly before New York re-opened. Some solid support at that level brought a recovery to \$388.25 in the fixing, still the lowest fixing since November 1979. The close was around \$389.50.

|             |           |   |             |
|-------------|-----------|---|-------------|
| Operations: | Market    | - | \$9mn.      |
|             | BIS       | + | 6           |
|             | Sundries  | + | 5           |
|             |           |   | <hr/>       |
|             |           | + | \$2mn.      |
|             |           |   | <hr/> <hr/> |
|             | Overnight | - | \$2mn.      |
|             |           |   | <hr/> <hr/> |

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