

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 12th January 1982

The vulnerability sterling had evinced yesterday became more apparent today in the face of another upward shift in Euro-dollar rates, unmatched by any increase in sterling interest rates. Industrial action on the railways and the threat from the miners added to the soft tone and the ERI fell 0.3 to 90.7.

Sterling was again sold by the IMM in New York last night and closed there against a stronger dollar at 1.8855. This morning the pound opened at 1.8820 and, after touching 1.8830, immediately started to give ground as the dollar strengthened further. In an active two-way market sterling was sold out of Frankfurt and Paris and, although the sales were partly absorbed by some official demand from Switzerland, the rate fell to 1.8761 within the first hour or so of trading. As the early activity diminished, sterling established a trading range around 1.87 $\frac{3}{4}$ and the rate was only a little lower at noon at 1.8764. A second wave of European selling commenced shortly after mid-day and the rate fell back to 1.8737 before recovering equally swiftly. Early New Yorkers looked as if they wanted to sell the dollar and, helped by some modest demand from an oil company, sterling staged an abrupt recovery over the lunch period, touching 1.8826 at best. However, the opening level of 12 $\frac{5}{8}$ % for Fed Funds ended hopes that the dollar would show any significant weakness, and with some Continental operators selling sterling for deutschemarks the rate eased back again to 1.8774 during the afternoon before closing, on a short-lived uptick, at 1.8815. Later, sizeable selling of sterling against the Continental currencies developed out of Chicago and New York and sterling fell another cent to 1.8725. Three-month Euro-dollars were 7/16% firmer over the day at 14 $\frac{3}{8}$ % but three-month inter-bank sterling deposits were unchanged at 15 $\frac{1}{2}$ %. The cost of cover fell $\frac{1}{2}$ % to 13/16% and the covered differential in favour of London widened to 5/16%.

At the close sterling had lost $\frac{3}{8}$ % in Switzerland (3.49 $\frac{1}{2}$) and Germany (4.30 $\frac{1}{2}$) but was unchanged against a rather weak French franc (10.49 $\frac{3}{8}$). Later, however, sterling fell to 4.28 $\frac{1}{2}$ in Germany. The dollar was firmer in Europe, closing at 1.8557 in Zurich, 2.2880 in Frankfurt and 5.8190 in Paris. EMS narrowed to only 1 $\frac{3}{8}$ %; the guilder (2.5080) replaced the French franc at the top and the Belgian franc (38.91) remained at the bottom. The French sold \$45mn., the Germans \$11mn. and the Danes \$5mn., while the Italians bought \$75mn. Elsewhere, the Swedes sold \$50mn. There was no intervention by the Japanese today and the yen closed a touch firmer in London at 222.75.

After falling to \$385 in New York last night, gold was a little firmer in London today. Fixings were at \$389.25 and \$389.

Operations:	Market	-	\$20mn.
	Switzerland	+	12
	India	+	9
	IDA	+	7
	Sundries	+	8
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		+	\$16mn.
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