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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 26th January 1983

The absence of any further significant developments on the oil front took the pressure off sterling today on the exchanges and allowed the rate to consolidate a little. After the hectic activity of the past two days, trading was relatively subdued and the pound remained within a fairly narrow range. The ERI rose 0.2 to 81.2. While the Far East reacted favourably to President Reagan's State of the Union message and its implications for US interest rates, Europe and the US were much more sceptical and by the close the dollar had recovered most of its early losses.

The pound closed in New York last night at 1.5395 but the dollar weakened sharply in the Far East following President Reagan's speech, so the rate opened in London at 1.5520. From the start sentiment was rather better than yesterday and activity was on a much reduced scale. A modest commercial order took sterling to 1.5555 within the first hour or so of business but at the higher levels a large professional was an aggressive seller and the rate fell to 1.5445 in mid-morning. However, the pound soon recovered and remained within a narrow range around the 1.54½ level for the balance of the day in light business. Sterling closed at 1.5470. Three-month Euro-dollars were 1/16% easier at 9 3/16% and the cost of forward cover narrowed to 2 1/16%.

The pound was a little firmer in Europe, gaining ¼% in Germany (3.74½) and France (10.60½) but was almost unchanged in Switzerland (3.07½). The dollar closed a little lower on the day in all these centres at 2.4190, 6.8550 and 1.9852 respectively. In EMS, the Danish crown (8.4822) took top place 2¾% above the Belgian franc (47.45). The French sold \$126mn., of which \$93mn. was in deutschemarks, and the Danes bought \$14mn. Elsewhere, the effects of the falling oil price were seen on the Norwegian crown, which weakened sharply despite support of \$62mn. while the Swedes sold \$30mn. The yen rose ½% to 234.75.

Gold reached \$493 in the Far East this morning on demand from North Africa but suffered from profit-taking in London. Fixings were at \$488.25 and \$486.50.

Operations:	Market	+	\$9mn.
	RBA	+	15
	Interest	+	6
	Yemen	+	5
	IMF	-	26
	Sundries	-	5
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		+	\$4mn.
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