

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday 6th November 1981

Sterling finished the week in good shape, exciting some useful demand and holding its level against an otherwise firmer dollar. The latter's improvement, in the face of declining interest rates, owed much to continuing talk of enlarged budget deficits. Sterling's ERI rose from 89.0 to 89.2.

The pound closed at 1.8737 yesterday in New York, where the dollar finished much firmer following the apparent upward revision - denied much later - of the official estimate of this year's budget deficit. This morning the dollar failed to maintain all of its overnight gains but nonetheless traded comfortably at levels much better than yesterday's. The pound reflected this, opening at 1.8742 and trading quietly all morning between the opening level and 1.8705. Modest commercial and professional selling was seen. Early this afternoon both dollar and pound moved as German banks bought sterling for deutschemarks. New York opened to an unemployment rate of 8% in October (up from 7.5% in September) and Federal funds at 14½%. The dollar declined and the pound met good demand from New York, touching 1.88 at best before retreating, as the dollar recovered, to close at 1.8760. The late improvement in the dollar followed a confession by the White House that yesterday's budget forecast was indeed at one extreme of a range of forecasts. Later still there were reports that the Administration was weakening in its resolve to balance the budget by 1984. Three-month eurodollars gave up early gains and closed a touch softer at 14¾% and the comparable sterling deposit also eased slightly to 15¾%. The cost of cover narrowed to ¾% p.a. and the intrinsic premium rose to ¾%.

The pound gained ½% against each of the Swiss franc (3.36¾), French franc (10.52¾) and deutschemark (4.17). The dollar improved to 1.7925, 5.61 and 2.2230 respectively against these currencies. The French franc remained soft on expectation of some relaxation in exchange control. The French sold \$30mn. The Danish krone (7.1412) continued to lead EMS, 2¾% distant from the deutschemark. The Dutch bought \$25mn. and a few deutschemarks. The yen eased to 228.97.

Gold continued featureless and totally lacking in interest. Fixings were \$427.75 and \$428.25.

Operations:	Market	+	\$13mn.
	India	+	19
	B.I.S.	+	9
	Sundries	+	2
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		+	\$43mn.
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