

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 10th November 1981

Following an uneventful start to the day sterling found itself on offer in modest amounts and lost ground in consequence around mid-day. It was very steady during the afternoon - neither the provisional money supply figures nor the CGBR had any noticeable effect - and the ERI declined no more than to 89.1. The dollar, which had crept upward during the day, kicked further ahead after the close on news that President Reagan would not now seek additional budget cuts for fiscal 1982.

The opening rate for sterling in London this morning was 1.8867, at which level it had closed in New York yesterday. Although it rose 10 points in the first hour the main movement occurred in the run up to noon when small offerings were made, particularly by London names, causing a decline to 1.8750. There was little activity later: the rate fluctuated between 1.8775 and 1.8735 before closing at 1.8740. In the rally which the dollar then experienced, the pound eased to 1.8660. Euro-dollar rates opened unchanged but closed a touch firmer: three-months was quoted at 13 15/16%. The covered differential was unchanged, a widening of sterling's forward discount serving to offset the rise to 15 1/16% in domestic interbank rates.

Due to the weak phase earlier in the day, the pound recorded net losses in Europe, declining to 3.34% in Switzerland, 4.16% in Germany and 10.51% in France. The dollar gained between 1/2% and 3/4% up to Europe's close, rising to 2.2205 in Germany, where the deutschmark was given just \$12mn. of support. Later, the dollar improved to 2.23%. EMS remained about 1 1/2% wide between the deutschmark and the Danish krone (7.15%). The Dutch again bought dollars (\$85mn.) whilst the Belgians defended their franc to the tune of \$34mn. and florins worth another \$8mn. The French franc eased to 5.6130, the Swiss franc to 1.7870; the yen weakened on talk of exchange control relaxations and fell 1 1/2% to 229.62.

Gold declined to \$419.75 in New York last night but rallied to close \$3 higher. It was able to sustain this improvement at the first fixing (\$422.75) but was heavily offered at the afternoon session where the selling interest caused a further decline to \$418.50. In later trading in North America, as the dollar moved higher, it resumed its downward path, to around \$413.

Operations:	Market	-	\$1mn.
	India	+	9
	Sundries	+	3
			<hr/>
		+	\$1mn.
			<hr/> <hr/>

10th November 1981.

DAHB

DAHB