

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 16th November 1981

Widespread expectations of a reduction in German official interest rates brought a substantial weakening in the deutschemark (and other related currencies) and encouraged strong demand for pounds, especially on portfolio account. As a result, the dollar presented a mixed picture, gaining considerable ground on EMS currencies, despite further marked declines in Euro-dollar deposits, but yielding in varying degrees to the yen, pound, Swiss franc and Canadian dollar. Sterling's ERI rose from 90.7 to 91.3, after 91.5 at noon.

The pound closed little changed at 1.9130 on Friday in New York, where the dollar was otherwise easier, as Federal Funds traded down to 12½%, following the Federal Reserve's execution of repurchase agreements on customer account, and the bond market remained comfortable in the wake of somewhat smaller accretions to the monetary aggregates than many had expected. This morning, the dollar was firmer - save in London - but, with Euro-dollars easier, this owed much to the flow of funds from deutschemarks into pounds. Sterling opened at 1.9217 (DM 4.27½) and advanced to 1.9252 (DM 4.29) on good demand from the Far East and Continent. The dollar then strengthened further as deposits ticked up, and sterling came back gradually to 1.9160. A second substantial wave of demand in mid-morning took the pound up to 1.9305, the dollar following in its train. Strong portfolio interest was seen from the Netherlands. Profits were then taken on the Continent and the rate settled around 1.9250. The afternoon was much less active in most markets. The dollar continued firm and sterling eased back to 1.9193, before closing at 1.9220. Three-months' cover cost 1½% p.a. Three-month Euro-dollars closed ¾% easier at 12 13/16% but comparable sterling deposits were unchanged at 14 7/16%. Sterling's intrinsic premium thus rose to ¾%.

The pound gained a further ¾% in Zurich (3.38½) and around 1% in each of Paris (10.84) and Frankfurt (4.29½). The dollar was a touch softer against the Swiss franc (1.7612) and the Swiss bought \$45mn. and swapped in \$25mn. as the SF/DM cross-rate fell to 0.78½. The deutschemark and French franc weakened to 2.2365 and 5.64 respectively, the French buying \$70mn.-worth of deutschemarks. EMS was 2½% in width between the Danish krone (7.1890) and deutschemark. The Italians sold \$31mn. and the Irish took in \$14mn. The Swedes spent \$60mn. The yen improved to 225.17.

Gold weakened progressively before the dollar's strength. Distress selling was observed from certain erstwhile firm holders. Fixings were \$408.25 and \$404½ and by the close the metal was approaching \$400.

Operations:	Market	+	\$70mn.
	BIS o/a Nigeria	+	82
	Sundries	+	12
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		+	\$164mn.
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	Overnight	-	\$10mn.
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