

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 23rd November 1981

A strange day on the exchanges. The dollar was very firm this morning for no apparent reason other than a continuation of its recent trend. Interest rates were softer; the monetary statistics were not so discouraging. Forceful, early intervention by the Bundesbank bore witness to the volume, at least in the deutschemark which was particularly weak. Only the yen gained ground on the dollar. This afternoon, however, the dollar was offered from the moment New York re-entered the lists, despite the fact that interest rates edged higher and the bond market was somewhat weaker. Sterling proved stable, if inactive, and the ERI rose from 90.5 to 90.7.

The pound recovered to close at 1.8990 in New York on Friday, the dollar generally failing to hold its better levels. This morning, however, the dollar was well bid from the outset, especially against the deutschemark. Sterling opened at 1.8972 (DM 4.29 $\frac{1}{2}$ ) and touched 1.8985 before easing back to 1.8915 as the dollar forged ahead. The Bundesbank's heavy foot in the door caused the dollar to turn tail, however, and the pound steadied around 1.8950, trading close to that level until early afternoon. The first Americans sold the dollar and sterling was the early beneficiary, advancing quickly to around 1.90. Other currencies later followed suit and the dollar weakened progressively, the pound continuing to rise to a closing level of 1.9145. Later a large commercial seller of pounds appeared in a very thin market. The dollar turned and sterling shed a cent. Three-month eurodollars were  $\frac{1}{2}$ % softer at 12 $\frac{3}{4}$ % while the comparable sterling deposit hardened a touch to 14 $\frac{1}{2}$ %. The forward discount widened only to 2 $\frac{1}{2}$ % p.a. so that sterling's intrinsic premium rose to  $\frac{1}{8}$ %.

The pound lost  $\frac{1}{2}$ % in Switzerland (3.43 $\frac{1}{2}$ ) but gained  $\frac{1}{8}$ % in Paris (10.83 $\frac{1}{2}$ ) and  $\frac{1}{8}$ % in Frankfurt (4.30). The dollar was weaker on balance in all these places closing respectively at 1.7942 (after 1.8197), 5.6612 (after 5.7212) and 2.2457 (after 2.27). The Swiss swapped in \$550mn. but their franc still hardened to 0.79 $\frac{1}{2}$  against the deutschemark. EMS widened to 2 $\frac{1}{2}$ % between the Danish krone (7.2150) and deutschemark. The Bundesbank sold \$50mn. and \$150mn. outright forward. The Dutch took in \$22mn.-worth of deutschemarks and the Italians purchased \$156mn. Elsewhere the Swedes bought \$36mn. The yen, with Tokyo closed, firmed to 217.32 (after 216.62).

Gold was again softer for choice, whatever the dollar's movements. Fixings were \$396 and \$396.75.

Operations:	Market	+	\$30mn.
	B.I.S.	+	24
	Interest	+	6
	Sundries	+	6
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		+	\$66mn.
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*Jm* 23rd November 1981

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