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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 2nd December 1981

After an uneventful morning, the dollar was strongly bid early this afternoon, only to decline as quickly afterwards when Federal Funds opened sharply lower. Sterling was comfortable for most of the day and drew some comfort from the Chancellor's statement. The ERI was unchanged at 91.8.

As the dollar surged in New York yesterday, sterling fell to 1.9380 before recovering to close there at 1.9505. This morning the pound opened at 1.9497, dipped to 1.9460, then regained opening levels on some modest early demand. Further interest in late morning carried sterling to 1.9545 but when early New Yorkers awoke to bid the dollar aggressively, sterling was sold down to 1.9437. When Federal Funds opened at 12 $\frac{1}{4}$ %, however, the dollar turned in its tracks. Sterling moved ahead again and, spurred by the Chancellor's speech, finished the day at 1.9495. Later still, as the dollar continued in retreat, the pound was quoted up to 1.9557. Three-month Euro-dollars were 3/16% firmer at 12 $\frac{3}{8}$ % but the forward discount narrowed by 5/16% to 2 $\frac{1}{2}$ % p.a. so that the covered differential rose to $\frac{1}{2}$ % in London's favour.

The pound finished a touch softer in Germany (4.33 $\frac{1}{2}$) and Switzerland (3.47 $\frac{1}{2}$), a little better in France (10.94 $\frac{1}{2}$). The dollar was a little easier in each of these places at 2.2218 (later 2.2150), 1.7830 (later 1.7760) and 5.6152 (later 5.5925). EMS was somewhat re-arranged as the Danish, French and Belgian currencies lost ground relative to the rest. The band remained 2 $\frac{1}{2}$ % in width with the Danish krone (7.1850) still at the head but the Belgian franc (37.81) now well adrift at the tail. The Bundesbank sold \$159mn. (of which \$100mn. outright forward), the Belgians sold a mixed bag worth \$16mn. and the French spent \$8mn. The Danes bought \$32mn. and the Dutch took in \$11mn.-worth of deutschemarks. Elsewhere the Swiss swapped in \$880mn. and the Swedes sold \$53mn. The yen hardened to 215.27 (later 214.07).

Gold was subdued this morning and the price was fixed at \$405.25. This afternoon the metal was well bid from New York as the dollar eased. The fixing set a level of \$406.75 and the closing price was around \$413.

Operations:	Market	+	\$24mn.
	Interest	+	7
	IDA	+	5
	Sundries	+	4
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		+	\$40mn.
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