

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 7th December 1981

The dollar was firmer today as Americans, in particular, continued to cover short positions: end-year influences, too, began to be felt. Sterling found two large buyers which kept it relatively buoyant but there were always ready sellers in the market-place, especially around 1.95. The ERI finished unchanged at 91.9.

The dollar was well bid in New York on Friday and sterling, in particular, was sold, closing there at 1.9357. This morning the dollar began a little firmer still but sterling found a sizeable buyer (on ECGD-backed export account) in the Far East and opened at 1.9437. After dipping to 1.9415, the pound recovered to establish a level around 1.9460. Later further strong demand was seen in London on oil company account. Sterling advanced to 1.9502 but had difficulty in cresting the 1.95 level, as professionals proved keen sellers around that point. This afternoon was not dissimilar. The dollar remained firm while showing no new trend. Sterling was bid up to 1.9358 initially but was quickly sold back to around 1.95 and remained close to that level for most of the afternoon, dipping late in the day to 1.9457 before closing at 1.9477. Later still the dollar met strong demand again from the United States. Federal Funds were steady at 11 $\frac{1}{2}$ % but the bond market progressively weakened as the latest budget deficit forecasts prompted fears of over-supply. The pound was sold down rapidly to 1.9360 in the twilight hour. Three-month Euro-dollars were  $\frac{1}{8}$ % easier (12 $\frac{3}{8}$ %), the sterling deposit fractionally firmer (14 13/16%). The cost of cover widened appropriately to 2 $\frac{1}{2}$ % p.a. so that the covered differential remained at 5/16% in London's favour.

The pound gained  $\frac{1}{8}$ % in each of France (10.96 $\frac{1}{2}$ ), Switzerland (3.49 $\frac{1}{2}$ ) and Germany (4.34 $\frac{1}{2}$ ). The dollar improved in these countries to 5.6292 (later 5.64), 1.7927 (later 1.81) and 2.2295 (later 2.2435). The Swiss swapped in \$20mn. over the turn of the year; the Germans sold \$13mn. in the fixing. EMS was a little more relaxed for much of the day but closed fully-stretched with the Danish krone (7.2142) and French franc at the head and the Belgian franc (38.02) at the base. The Danes bought \$3mn., the Belgians sold \$6mn.-worth of Danish kroner and \$9mn.-worth of French francs. The Dutch took in \$30mn. and \$22mn.-worth of deutschemarks. The yen was a touch softer at 215.97.

Gold retreated in New York on Friday and again in the Far East this morning. Thereafter the market was quiet and steady. Fixings were \$417.25 and \$416.75.

Operations:	Market	+	\$17mn.
	Interest	+	5
	Sundries	+	1
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		+	\$23mn.
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	Overnight	-	\$3mn.
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*JGH*  
7th December 1981.

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