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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 15th December 1981

The ephemeral effect which outside influences sometimes have on exchange markets could have been no better demonstrated than by today's developments which, because the Polish affair had stabilised, saw the dollar give up yesterday's rises against major currencies. Action by the Banque Nationale to inflict penal interest rates on non-resident overdrafts moved the Belgian franc swiftly from base to apex of EMS. Sterling found a few buyers and the ERI rose to 89.9.

There was one sizeable seller of pounds in New York last night; although the dollar was weakening generally the rate could only improve to 1.8697 (4.24½ in deutschemark terms) by the close. It opened in London today at 1.8750 and drifted lower, to 1.8710, before some demand, and a weakening dollar, brought about a steady recovery which topped out at 1.8880. The close was 1.8845. A firm tone in yesterday's US bond market, due to an official buyer in the Middle East, served to depress Euro-dollars at the opening today. A weak rally took place but was not sustained, leaving three months at 13¼%. Interbank sterling eased to 15 7/16% and the covered premium in London's favour rose to 5/16% p.a.

The pound had mixed fortunes in Europe, losing ground in Switzerland (3.43¼) and France (10.82¼) but edging firmer against the deutschemark (4.26 15/16). The main feature in EMS was the change in the Belgian franc's fortune: it rose nearly 4% to 37.59 and emerged a clear leader, just over 1¼% above the deutschemark, which improved 1¼% to 2.2655. The Bundesbank sold \$41mn. whilst the Dutch bought \$40mn. and the Italians \$70mn. The French franc improved to 5.7455 and the Swiss franc to 1.8250. The yen, too, moved firmer and closed at 218.57.

Gold eased in New York last night and traded quietly in London today. Both fixings were at \$413.25.

Operations:	Market	+	\$18mn.
	IDA	+	14
	Sundries	+	7
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		+	\$39mn.
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	Overnight	+	\$11mn.
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