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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th December 1981

While markets remained fundamentally thin, some sizeable orders were placed in the course of the day's trading. The biggest of these - an official conversion of the proceeds of a deutschemark eurobond issue into dollars - kept the dollar on a firm course throughout the session. Sterling, which was already suffering from the dollar's latest surge, found a number of significant commercial sellers, who were satisfied, in the event, without too much discomfort. The ERI rose overnight from 90.1 to 90.5 but retreated again to finish the day at 90.0.

The pound closed quietly at 1.8847 in New York yesterday. This morning it opened at 1.8855, despite a somewhat firmer dollar on the Continent, following the latest news from Poland. Sterling touched 1.8860 before easing back as the dollar strengthened further. Soon enough the Central Bank conversion (some DM 300mn.) brought further upward pressure on the dollar and, with commercial sellers of pounds now entering the lists, sterling retreated progressively to around 1.87. This afternoon, the pound was traded down to 1.8685 but thereafter managed to hold a level around 1.87 before perking up to close at 1.8742. Later, the US Commerce Department's first "flash" of fourth quarter GNP (a decline of 5.4%) made for an easier dollar and sterling was marked up to 1.8792. Three-month Euro-dollars were  $\frac{3}{8}\%$  firmer at 13 $\frac{3}{8}\%$  and the sterling deposit hardened almost as much to 15 11/16%. Three-months' forward cover cost 1 $\frac{1}{2}\%$  p.a. and the covered differential was nearly  $\frac{1}{4}\%$  in London's favour.

The pound lost  $\frac{3}{8}\%$  in Zurich (3.42 $\frac{1}{2}\%$ ) but gained  $\frac{1}{8}\%$  in Frankfurt (4.29 $\frac{1}{2}\%$ ) and  $\frac{1}{4}\%$  in Paris (10.86 $\frac{1}{2}\%$ ). The dollar firmed in these centres to 1.8295, 5.7950 and 2.2902 respectively. EMS was 1 3/16% in width, the French franc at the head and the deutschemark at the tail. The Bundesbank sold \$39mn., the Bank of France bought deutschemarks worth \$34mn. The yen eased to 219.55.

Gold was steady but the fixings were relatively active. Levels set there were \$415.25 and \$415.75.

Operations:	Market	+	\$9mn.
	IDA	+	5
	Sundries	-	1
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		+	\$13mn.
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*Jew* 18th December 1981.

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