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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 22nd December 1981

Buyers of deutschemarks - notably from Iron Curtain sources - made for an easier dollar this morning and sterling improved in sympathy. Later some modest demand for the pound was evinced and this proved a comfortable cushion for the rest of the day. The ERI rose from 90.0 to 90.2.

Sterling closed at 1.8785 yesterday in New York where the dollar was generally a little firmer. This morning, a large buyer of deutschemarks in the Far East brought the dollar lower from the outset. Sterling, however, was slow to respond, opening at 1.8790 and idling around 1.88 through the early exchanges. Two interested buyers - one of which on official Middle East account - drove the pound up to 1.8867 and it traded comfortably around 1.8850 into early afternoon, when a commercial order in London took the rate up to 1.8895. With Federal Funds firming, however, to $12\frac{1}{2}\%$, the dollar recovered and sterling was marked back to 1.8815 but the earlier range was quickly restored and the pound closed quietly at 1.8867. Three-month Euro-dollars gained $3/16\%$ ($13\frac{1}{2}\%$), sterling deposits $1/16\%$ (16%). The cost of cover narrowed by only $1/16\%$ ($1\frac{1}{2}\%$ p.a.) so that sterling's intrinsic premium was reduced to $\frac{1}{2}\%$.

The pound was marginally firmer in Switzerland ($3.42\frac{1}{2}$) and Germany ($4.28\frac{1}{2}$) and $\frac{1}{2}\%$ better in France ($10.84\frac{1}{2}$). The dollar was a little lower in each of these countries at 1.8135, 5.7495 and 2.2720 respectively. EMS narrowed to $1\ 3/16\%$ between the French franc and deutschemark. The French bought \$20mn. and swapped out \$70mn. The Germans sold \$11mn. and swapped in \$900mn. for eight days to the 31st December. The Italians took in \$77mn., the Danes spent \$34mn. Elsewhere, the Swedes lost \$23mn. The yen eased in Tokyo to 219.95 before recovering in London to 219.40.

Gold was soft. Having declined to \$400.75 in New York yesterday, it recovered a little in the Far East and was fixed in London this morning at \$403.75. This afternoon, \$400 was breached and a difficult and uncertain fixing eventually set a level of \$399.60. Later, however, the metal rebounded to \$402.50.

Operations:	Market	-	\$3mn.
	Iran	+	20
	BIS	+	16
	Sundries	+	3
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			+ \$36mn.
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