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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 2nd July 1981

The pound took another pasting today as, with the dollar generally steady, operators returned to sell. Strong, two-way activity was again seen at times but there were also periods of acute nervousness. The ERI fell from 93.1 to 92.1.

The pound was widely sold in New York yesterday and touched 1.8915 before closing at 1.8930. The dollar was otherwise a little easier, as Federal Funds, though expensive, closed below the day's highest level. The Far East were modest sellers of pounds this morning but, as often, the currency was sold in size when European banks joined the fray. Sterling opened at 1.8935 and was soon sold down violently to 1.8850, while the dollar elsewhere was unmoved. Good volume was again in evidence through much of the morning with commercial buyers, sometimes in some size, interspersed with all manner of sellers. The volatility and nervous uncertainty was evidenced by the swings in the rate as partial recovery was followed by further downward pressure. Sterling was reduced to 1.88 by early afternoon. Federal Funds opened firm again and the pound was sold down to 1.8755 by mid-afternoon as the dollar strengthened generally. Money in New York then eased; the dollar turned and sterling recovered to 1.8920 before closing at 1.8900. Three-month Euro-dollars were a touch firmer at 18 $\frac{1}{4}$ %. The forward premium was 5 $\frac{9}{16}$ % p.a. and the covered differential moved marginally against London.

The pound lost 1 $\frac{1}{2}$ % in Germany (4.54 $\frac{1}{2}$), 1 $\frac{1}{2}$ % in Switzerland (3.90 $\frac{1}{2}$) and 1 $\frac{1}{2}$ % in France (10.79 $\frac{1}{2}$). The dollar eased in all three countries to 2.4060, 2.0660 and 5.71 respectively at the close but was later quoted much firmer. EMS was fully stretched between the deutschemark and Belgian franc (39.45). The Belgians sold \$23mn. but the Italians bought \$22mn. and the French took in deutschemarks worth \$36mn. The Swedes gained \$20mn. The yen strengthened to 225.92.

Gold traded to another year's low of \$408.50 this morning before fixing at \$410. This afternoon saw another modest rally and the price was fixed at \$414.50.

Operations:	Market	-	\$87mn.
	New Zealand	-	47
	India	+	9
	Interest	+	6
		-	<u>\$119mn.</u>

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