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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 9th July 1981

Sterling had another uncomfortable afternoon. The dollar remained firm as Federal Funds began the new statement week over 20%. The deutschemerk was protected by a large, commercial buying order and by rumours (unfounded) of a 2% increase in the Special Lombard Rate. Sterling, with the French franc, again became the prime speculative target, and the ERI fell from 93.5 to 92.9.

Professional selling drove the pound to a new, three-year low of 1.8685 in New York yesterday but, with the Federal Reserve buying securities outright in the Government market, the dollar eased late in the day and sterling recovered to close there at 1.8835. This morning the pound opened at 1.8825, dipped to 1.8817 and then began a steady advance as the dollar wilted under pressure from a large, commercial selling order in Germany. The rate touched 1.8885, before settling around 1.8850 for an otherwise quiet morning. This afternoon, however, Federal Funds soon moved over 20% partly, it was said, on expectation of the forthcoming movement of Iranian funds and the dollar, for the most part, strengthened. Sterling suffered worse than most, meeting small but persistent offerings, and fell to 1.8780 before closing at 1.8786. Later the pound was traded down to 1.8720 but, when the Federal Reserve appeared to lend money to the domestic system, sterling recovered to around 1.88. Three-month Euro-dollars were nearly $\frac{1}{2}$ % firmer at 18 $\frac{1}{2}$ %, while comparable sterling deposits gained $\frac{1}{2}$ %. The forward premium widened by $\frac{1}{2}$ % to 5 5/16% p.a. and interest parity prevailed.

The pound was unchanged on the French franc (11.01 $\frac{1}{2}$) but lost $\frac{1}{2}$ % to both the Swiss franc (3.95 $\frac{1}{2}$) and deutschemerk (4.63 $\frac{1}{2}$). The dollar was little changed against the Swiss franc (2.1062) and deutschemerk (2.4650) but gained substantially on the French franc (5.8612) which later hit a new all-time low of 5.8715. The French sold \$70mn. and the Germans \$33mn. EMS widened to 2 $\frac{1}{2}$ % between the deutschemerk and Belgian franc (40.38). The Belgians, however, bought \$10mn. and the Italians took in \$25mn. but the Dutch sold \$20mn. (half of which in deutschemarks). The yen firmed to 228.80.

Gold dipped to a new, recent low of \$394.50 in New York yesterday but recovered sharply to close there at \$403.50. Today the metal traded firmer. Fixings were \$406 and \$406.25 and the close around \$408.50.

Operations:	Market	-	\$56mn.
	India	+	9
	Ghana	-	7
	Sundries	+	1
		-	\$53mn.

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