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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 13th July 1981

The latest decline in U.S. money aggregates sapped the dollar's strength late on Friday. Sterling failed to take advantage, the ERI falling to 93.0, and was in any case itself later sapped by a sizeable commercial selling order.

The pound closed in New York on Friday and opened in London today at 1.90. It touched 1.9040 at best this morning but was featureless up to the close when the rate was 1.8965 (having bottomed at 1.8937 a little before). Shortly after 4 p.m. a large selling order from North America set the rate sharply back to 1.88. Eurodollars eased by about $\frac{1}{8}\%$, the three months' price closing at 18 $\frac{5}{16}\%$; but as sterling interbank rates moved in the other direction, a marginal premium arose for the pound on a covered basis.

At the end of trading in London there were falls for sterling in every Continental centre: by over $\frac{1}{2}\%$ against the deutschemark (4.60 $\frac{1}{2}$), to 3.92 $\frac{1}{2}$ in Switzerland and by about $\frac{1}{8}\%$ in French franc terms, 10.96 $\frac{1}{2}$. During the pressure which developed later the cross-rate against the deutschemark fell to 4.56. In Germany the dollar fell below 2.41 this morning but rallied nearly to 2.43 before closing at 2.4270. EMS was fairly taut but not under pressure: indeed, the Belgians managed to buy \$15mn. as their franc improved to 39.77. For some reason the Dutch felt a need to intervene, although the florin seemed actually to be improving: they sold \$35mn. and deutschemarks worth a further \$37mn. Paris was closed: the French franc improved to 5.78 $\frac{1}{2}$. The Swiss franc rose to 2.0712 (after 2.0545); the yen was little changed at 228.

Gold remained firm over the weekend and fixed at \$417.75 this morning. But investors took fright at a firmer tendency for Fed Funds at New York's opening - but not subsequently sustained - and the price fell to \$413 this afternoon.

Operations:	Market	-	\$42mn.
	India	+	10
	Government	+	8
	Interest	+	6
	Sundries	+	5
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		-	\$13mn.
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	Overnight	-	\$28mn.
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