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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 20th July 1981

Today was quiet on the exchanges and rate movements were narrow. Turnover in sterling was very modest and the rate traded less than half a cent either side of the opening level throughout the day. The ERI ended 0.1 lower at 92.3. The unexpectedly large increases in the US money supply announced on Friday (M1A +\$3.8bn., M1B +\$6.9bn.) caused the dollar to firm sharply overnight and in the Far East, but in quiet trading in London it generally did not quite hold its best levels. The yen again required support.

Following the money supply figures sterling closed in New York at 1.8707 on Friday, a cent lower than the London close. The rate opened in London this morning at 1.8720 and initially eased as the dollar strengthened in Europe, touching 1.8710 in early business before recovering to 1.8740 at noon. Some modest buying from the US took the rate to 1.8756 by mid-afternoon but one or two selling orders in a thin market were then sufficient to take it to 1.8705 shortly before the close at 1.8710. Although higher at first, three-month Euro-dollars ended only 1/16% firmer over the day closing at 18 3/4%. With sterling's forward premium widening to 4 1/2% the covered differential in favour of London was reduced to 1/4%.

The pound was a touch firmer in Europe, closing at 4.57 1/2 in Germany, 3.92 1/2 in Switzerland and 10.84 1/2 in France. For its part, the dollar was around 1% firmer in these centres ending at 2.4452, 2.0965 and 5.7942 respectively. EMS was quiet, with the Belgian franc (40.01) only 2 1/16% below the deutschemark. Intervention was very modest: the Italians bought \$72mn., the Danes bought \$10mn. and the Dutch sold \$30mn. and DM worth \$12mn. Outside EMS the Swiss sold \$25mn. outright and the Norwegians sold \$1mn. Although the Bank of Japan did not intervene in New York on Friday, they sold a further \$125mn. in Tokyo this morning (making \$625mn. during the past week) to support the yen which closed at 232.92 in London.

The gold price was a little easier on the stronger dollar and higher Euro-dollar rates. Fixings were at \$414.75 and \$412.50.

Operations:	Finland	-	\$44mn.
	British Aerospace	+	30
	Iran	+	10
	India	+	9
	Interest	+	6
	Sundries	+	2
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		+	\$13mn.
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