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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 21st July 1981

Sterling drifted lower overnight and this triggered some selling as recent lows were approached. Later, a rise in Euro-dollar rates (and, subsequently, Fed Funds) pulled other currencies down just as the firmer tendency for interbank sterling rates was giving the pound some confidence. The ERI fell to 91.7 (after an unpublished 91.6).

The New York market was relatively quiet and sterling ended the day at 1.8547. It opened today at what proved to be the best level, 1.8610, declining on modest but European-wide selling to 1.8490. It fell a further cent this afternoon when the dollar advanced generally, reaching a three-year low of 1.8385. Thereafter the higher levels of domestic interest rates gave a spur bringing the closing rate to 1.8486. Euro-dollars opened bid and advanced further, the three-months' period closing at 19 $\frac{1}{8}$ %. Interbank sterling ended at 14 9/16%, leaving a slightly wider covered differential (3/16%) in London's favour as the forward premium widened to 4 $\frac{1}{2}$ %.

Although dropping below 4.54 at one point, the pound was able to regain some ground against the deutschemark and closed at 4.55 $\frac{1}{2}$ - about $\frac{1}{2}$ % lower than yesterday; in Switzerland it eased to 3.90 $\frac{1}{2}$ and in France to 5.8505. The dollar rose by about $\frac{1}{8}$ % but brought no particular pressure either to EMS or on central banks' wills to intervene. The system closed about 2 1/16% wide with the deutschemark at 2.4660 and the Belgian franc at 40.36. The Irish supported the punt (1.4770) by sales of \$28mn. and sterling equivalent to another \$2mn. The Danes bought \$41mn., the Italians \$29mn. The lira closed at 1224, the French franc at 5.8505 and the Swiss franc at 2.1137. Even the Japanese escaped lightly: they spent only \$41mn. this morning, the yen closing in Tokyo at 233.40. It weakened in London to 234.65.

Gold eased on the higher cost of carrying, fixing at \$408 and \$406.

Operations:	Market	-	\$35mn. (net)
	Iran	+	9
	India	+	6
	Sundries	+	8
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		-	\$12mn.
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DAHB

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