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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 23rd July 1981

Interest rate levels - real and imagined - once more came into prominence. The dollar opened weak under the continued influence of yesterday's GNP but recovered when the market decided that the movement had run too far; later it was comforted by Regan's support for the Fed's interest rate policy. Sterling was quite actively traded: it occasionally weakened noticeably in European centres but finished with little net movement on yesterday's final levels in London and the ERI was unchanged at 91.8.

The New York market was quiet and the pound closed there at 1.8610 last night. The Far East were sellers of dollars this morning: in London, the pound rose from an opening 1.8650 to 1.87 before retreating to 1.8560 just before noon as selling began to predominate. Although passing back through 1.86 this afternoon a late rally for the dollar cut the pound down to a close of 1.8564, after 1.8545. Eurodollars opened offered but regained strength to close unchanged at 19 3/16%. With forward margins widening out to 4 1/2% p.a., the covered comparison reverted to parity.

In Europe, sterling was a touch easier by the end of trading in Germany (4.53 1/4, after 4.53 1/2) and France (10.79 1/2) but had edged up in Switzerland (3.90 1/2). The dollar opened just above 2.43 in Germany and fell just below in the opening hour but grew steadily stronger, dipping to 2.4365 before closing at 2.4445. The Bundesbank sold \$20mn. The Belgian franc finished the day at 40.04, about 2 1/2% below the top of EMS. There were no particular features elsewhere. The French franc closed at 5.81 1/2, the lira at 1215 1/2; the Italians bought \$27mn. The yen improved to 233.70 in Tokyo but eased in London to 234.15. The Canadian dollar continued to weaken and has now fallen a cent since Monday, to 1.2159 tonight; the Bank of Canada sold \$146mn. yesterday bringing their total this week to \$432mn.

Gold improved to \$410.50 this morning but was on offer at the second fixing which took place at \$407.75.

Operations:	Market	-	\$35mn.
	Interest	+	8
	Sundries	+	2
		-	<u>\$25mn.</u>

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