

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 27th July 1981

Market hopes of the long-awaited downturn in U.S. interest rates were aroused briefly today by the unexpectedly sharp decline in the U.S. monetary aggregates announced on Friday (M1A - \$4.7bn., M1B - \$5.9bn.). The dollar opened significantly weaker in Europe, but as operators took the opportunity to move further funds from Switzerland and Japan into the U.S. and Fed Funds remained tight, by the end of the day it had regained much of its early losses. Sterling was steady in quiet trading; the ERI rose 0.3 to 92.3.

As the dollar fell in late business in New York on Friday sterling moved up to close at 1.8750. It opened this morning at 1.8760 and traded narrowly around that level, reaching at best 1.8795 in mid-morning, although the dollar was gradually firming elsewhere. Activity in sterling remained at a low level and although the rate had drifted down to 1.8740 by noon, it recovered again in the early afternoon as Fed Funds opened at 17½%, rather lower than expected, reaching 1.8782. The lower Funds rate was, however, short-lived and as it moved up to 18½% and the dollar firmed steadily in Europe, sterling eased back to 1.8715 shortly before the close at 1.8725. Later, as the dollar strengthened further sterling was quoted down to 1.8595. Three-month Euro-dollars were ¾% easier over the day at 18¾%. Sterling's forward premium narrowed to 4% and the covered differential was unchanged at ½% against London.

Sterling was a little stronger in both Germany (4.54¾) and France (10.81½) but gained ¾% in Switzerland (3.94¾). By the close the dollar was weaker in both of the first two centres (2.4267 and 5.7770 respectively) but was a little firmer in Zurich (2.1062). In late business, however, the deutschemark was quoted at 2.4370. EMS narrowed to 2 1/16% between the Belgian franc (39.72) and the mark. The only intervention was by the Irish who sold \$14mn. Elsewhere, the yen (235.70) continued weak, as did the Canadian dollar (1.2196).

Gold tried to improve a little on the easier dollar but could not sustain the higher levels. After fixing at \$409.75 and \$408.75, the price was later quoted down to \$403.

Operations:-	Market	-	\$9mn.
	Government	-	11
	Ghana	-	8
	Sundries	+	3
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		-	\$25mn.
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