

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 28th July 1981

No fireworks enlivened the exchange markets today. The dollar displayed an apparent air of firmness in reaction to yesterday's Fed inaction, when they showed no desire to be wedded to hopes for lower interest rates. (Today they consummated repurchase agreements but only for customer account.) Sterling took the centre of the ring at times and was blessed with modest demand, bringing in its train an improvement in most centres; the ERI, however, eased to 92.1. The Canadian dollar weakened further.

The dollar's improvement in New York last night weakened the pound, at the close there, to 1.8567. It opened today at 1.8585 and was initially offered from Switzerland down to 1.8540. Thereafter it traded quietly, sparking into life occasionally as demand emerged, to reach 1.8637 shortly before closing at 1.8595. Eurodollars were very well bid at the opening and rose further during the day, closing for three months at 18 $\frac{3}{4}$ %; although interbank sterling rates also firmed, forward margins failed to compensate and the covered differential widened to 5/16% against London.

Sterling edged up to 4.54 $\frac{3}{4}$ % in Germany but shaded lower in France (10.79 $\frac{1}{2}$ %) and Switzerland (3.94 $\frac{1}{2}$ %). In these centres the dollar showed little net change within the day though gaining up to $\frac{1}{4}$ % compared to last night: closing levels were respectively 2.4460, 5.8070 and 2.12. EMS slackened to about 1 13/16% wide between the deutschemark and the Belgian franc (39.94): the Belgians bought \$52mn. The Irish sold \$24mn. The Japanese lost \$46mn. in New York yesterday: the yen ended today in London at 237.07. The Canadian dollar was under severe attack during the North American day and the Bank of Canada sold \$456mn. The rate eased further in London to 1.2296 but closed at 1.2262.

Gold eased to \$403 in a very active morning session and later to \$401.50. \$400 was tested but at that level there was some support.

Operations:	Market	+	\$7mn.
	Interest	+	22
	Crown Agents	+	10
	India	+	9
	Sundries	-	2
		+	<u>\$46mn.</u>

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