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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 31st July 1981

The ending of the Civil Service strike put some fire into sterling late yesterday but this was short-lived, being extinguished by pre-weekend torpor and some late selling today. The dollar was marked lower at the opening in most centres but improved as the day grew older and finished close to last night's levels. The Canadian dollar fell sharply on the latest Treasury Bill result. Sterling's ERI declined to 92.0.

In New York last night the pound rose to 1.8625. Early trading in London was low key with the rate rising from 1.8597 to 1.8615. An oil company sold the pound this afternoon, causing a fall to 1.8495, but the failure to sustain the subsequent rally owed more to an end-week, end-month lassitude than to further offerings: the rate fell to 1.8460 but recovered to close at 1.8480. Shortly afterwards, however, the pound began to be offered in small parcels and went below 1.84. Interest rates were steady at first but later eased back. Three-months' Euro-dollars finished at 18 $\frac{1}{2}$ %, interbank sterling at 14  $\frac{9}{16}$ %; there was a covered premium against London of 1/16% p.a.

Sterling weakened in most centres, down to 4.55 $\frac{1}{2}$  in Germany, but was a touch firmer in France (10.83 $\frac{1}{2}$ ) and Switzerland (3.95 $\frac{1}{2}$ ). The dollar opened at 2.4585 in Germany and closed at 2.4652 (after 2.4665). Its rally kept EMS under strain at times and caused the Belgians to spend \$98mn. and deutschemarks worth \$20mn.: their franc closed at 40.39, about 2  $\frac{3}{16}$ % below the top of the system. The French franc closed at 5.8615, their Swiss counterpart at 2.14. The Italians recouped \$38mn. The yen was quiet, easing to 239.67. The Canadian dollar weakened to 1.23 $\frac{1}{2}$  last night, receiving \$167mn. of support, and hit another recent low today (at 1.2339) before closing at 1.2319 - presumably on renewed official support.

Gold moved up in New York yesterday and held steady today with fixings at \$405.25 and \$406.

Operations:	Market	-	\$10mn.
	Government	+	6
	Sundries	+	1
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		-	\$3mn.
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	Overnight	-	\$9mn.
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The result for July is a fall of \$1,063mn. in reserves to a level of \$24,568mn., after Government and other PSB repayments of \$630mn. and a repurchase equivalent to \$76mn. under the IMF oil facility. The renewal of the ECU swap added \$61mn. to the spot reserves and contributed a like amount towards the reduction of \$171mn. in the overbought forward position to \$1,149mn.

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