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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 4th August 1981

An avalanche of intervention today (over \$1½bn.), led by the Germans, caused the dollar only temporary inconvenience in its ascent, which had continued in New York last night. This is not a surprising result as there are no signs of any softening in US interest rates, particularly with this week's heavy funding operations; German intentions may be good but not their timing. Sterling was an active market at times, keeping itself roped to other European currencies but encountering some personal crevasses at the close as interbank rates eased and official indications were given that the cessation of the civil servants' strike would not, after all, cause serious shortages in the money market. The ERI slipped down to 91.4, a new low.

At worst last night the pound had fallen to 1.7980 in New York, where it rallied to close at 1.8010. By the opening in London this morning the Japanese and Germans had started to sell dollars and this gave sterling an opening quotation of 1.8145. Shortly afterwards it reached today's peak of 1.8175 before drifting back to around 1.81 at noon. At times good business was again reported. The softer tone for interbank sterling brought the pound down to 1.8010 but a later rally was aborted by the Treasury's statement on the civil servants' strike so that a recovery only to 1.8058 was possible by the close. Later, as the Germans retired, the dollar strengthened again and sterling fell to 1.7940. Euro-dollars rose as Fed Funds remained tight, closing at 19½% at three-months. The forward premium rose to 5 1/16%, increasing the covered differential in London's favour to ¾% p.a.

In Germany the pound was little changed at 4.55½; it rose to 10.83½ in France but eased to 3.95½ in Switzerland. After 2.5382 in New York, the deutschemark ranged between 2.5290 and 2.5040 in London today before closing at 2.5205 - but at some cost: \$812mn. was sold today and after London's close the rate was again at 2.5350. The deutschemark moved back to the top of the narrow band, 2½% above the Belgian franc (41.31 at the close), as the lira moved a further ¼% away. The French franc hit 6.03 last night and closed today at 6.0002 (later 6.02¼). The Swiss franc, after 2.20½ last night and late tonight, had closed at 2.1907. The Swiss were the principal supporters in intervention: they sold \$220mn. Other sellers were France \$63mn., Holland \$50mn., Belgium \$33mn. and Denmark \$30mn. In Tokyo earlier the Japanese had sold \$73mn. (having lost \$60mn. in New York yesterday): the yen touched 247.40 in the Far East today, closing at 242.10. It eased to 245.05 in London. The Canadian dollar weakened to 1.2433 last night and the Bank of Canada sold \$150mn.; today it improved to 1.2386.

Gold remains weak. It fixed at \$391.75 and \$391.25, having fallen to \$389 in Hong Kong earlier.

Operations:	Market	-	\$23mn.
	Interest	+	14
	India	+	9
	Sundries	+	3
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		+	\$3mn.
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