

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

~~Monday~~
^{Tuesday}
~~Monday~~, 11th August 1981

Yesterday's reaction to the dollar's extraordinary strength was continued on the exchanges today, although uncertainties over EMS, and the French franc in particular, remained an inhibiting factor. Some incipient interest in sterling was seen at times this afternoon and the ERI edged up to 90.2.

The pound closed comfortably at 1.7705 in New York yesterday. This morning Singapore made up for a holiday yesterday by bidding for dollars and that currency opened firmer in London, only to decline on unfounded rumours of Swiss official intervention and an impending package from the Bundesbank. Sterling, as often, was ignored and, after opening at 1.7650 touched 1.7640 before climbing reluctantly to crest 1.77. This afternoon, however, the pound seemed at times to be leading the assault on the dollar and, with renewed American interest and occasional commercial buyers in London, the rate rose to 1.7805. Late in the day, however, another rumour, again unsubstantiated, of martial law in Poland, brought a recovery in the dollar and sterling closed at 1.7710. Eurodollars were a touch softer, sterling deposits also easier. The forward premium narrowed to 4 9/16% p.a. and sterling's intrinsic premium all but vanished.

The pound was a little better in Paris (10.91 $\frac{1}{2}$) and a touch weaker in Frankfurt (4.55 $\frac{1}{2}$) and Zurich (3.89 $\frac{1}{2}$). The dollar eased in these centres to 6.16 $\frac{1}{2}$, 2.5702 and 2.2007 respectively. EMS was 2 1/16% spread between the deutschemark and Belgian franc (42.06) but, while rumours of an imminent realignment were perhaps a little less prevalent, pressure on the French franc, in particular, nonetheless persisted. The Bank of France sold \$496mn. and \$55mn.-worth of deutschemarks. The Belgians spent \$98mn. and the Bundesbank lost \$62mn. (all at the fixing) while buying \$10mn.-worth of Belgian francs. The Italians, however, took in a further \$65mn. Elsewhere, the Swedes sold \$30mn. and the yen improved to 236.65.

Gold continued its modest rally and succeeded in consolidating above \$400 this afternoon. Fixings were \$396.50 and \$401 and the metal traded up to \$405 before closing around \$403.

Operations:	India	+	\$14mn.
	I.D.A.	+	5
	Sundries	+	<u>2</u>
		+	<u>\$21mn.</u>

JGH 11th August 1981

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