

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 12th August 1981

The dollar continued on a softer tack today and, later this afternoon, suffered a massive correction on widespread selling from the United States. Sterling was not active and managed for the most part to keep pace with EMS. The ERI rose from 90.2 to 91.0.

The pound advanced to 1.7875 in New York yesterday before closing there at 1.7827. The dollar was considerably easier in response to a firm US bond market. This morning the dollar's softer tone continued. Sterling opened at 1.7835, touched 1.7810 and established a level around 1.7850, rising to top 1.79 early this afternoon. Federal Funds were up to $\frac{1}{2}\%$ easier at around $17\frac{1}{2}\%$ - $17\frac{1}{2}\%$ but showed no marked tendency to soften any further. Indeed, the US debt markets quickly turned easier. Nonetheless the dollar was hit by a wave of American offerings in mid-afternoon and fell sharply through to the close. Sterling finished at 1.8295 after 1.83. Later still there was inevitably some reversal and the pound was marked down to around 1.81. Sterling's three-month forward premium narrowed to $4\frac{7}{16}\%$ p.a. although Euro-dollars were only fractionally easier and sterling deposits lost around $\frac{1}{8}\%$. The covered differential thus turned modestly against London.

The pound gained $\frac{5}{8}\%$ on the Swiss franc (3.92 $\frac{3}{8}$), lost $\frac{1}{8}\%$ to the deutschemark (4.54 $\frac{3}{8}$) and fell by $1\frac{3}{8}\%$ against the oversold French franc (10.73) which was the main beneficiary of the dollar's correction gaining nearly 5% to 5.86 $\frac{1}{2}$. The deutschemark (2.4840, but later 2.51) put on $3\frac{3}{8}\%$ but the Swiss franc (2.1470) only $2\frac{1}{2}\%$. The Belgian franc (40.82) was more than fully distant from the deutschemark in EMS at the close. The French franc leapt to second place and the lira fell back into the narrow band in third slot after the Italians had purchased \$102mn. The French spent a further \$236mn. and deutschemarks worth \$40mn. The Germans sold \$61mn. and the Belgians \$57mn. The Swedes lost \$32mn. and the yen gained a further $3\frac{1}{2}\%$ to 228.40.

Gold was much firmer in the wake of the dollar's weakness. Fixings were \$408.50 and \$417.50 but, by the close, the price had relaxed to \$410.

Operations:	Market	+ \$10mn.
	India	+ 18
	Government	+ 10
	Sundries	+ 6
		<hr/>
		+ \$44mn.

JGH 12th August 1981.

JGH