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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th August 1981

News of the movement of the remaining Iranian funds, together with some diversification of these by the Iranians themselves, sent the dollar into a tailspin this morning. Sterling was not active at first but ran into strong demand as the money market tightened. This afternoon, Federal Funds touched 20% and the dollar recovered forcefully, bolstered later by Venezuelan objections to the OPEC pricing agreement. Sterling's ERI fell from 91.3 to 91.1.

The pound closed at 1.8240 in New York yesterday but opened at 1.8285 this morning against a weaker dollar, advancing a further cent in the opening exchanges as the dollar's decline continued. Later, as interbank rates began to harden significantly, the pound met strong demand and was bid up to 1.8535 in late morning, as commercial stop-loss orders mounted. The rate was still around 1.85 as New York opened, but, with Federal Funds opening at 20%, the dollar sprang back to life and sterling retreated over the rest of the day to close at 1.8265. Euro-dollar and sterling deposits were both firmer. The three-month forward premium narrowed, however, to 4 11/16% p.a. so that interest parity prevailed on the covered comparison.

The pound was a touch firmer in Switzerland (3.97%), a little easier in Germany (4.56) and 3/8% lower in France (10.85%). The French franc fared favourably, closing at 5.9425, and the Bank of France recouped \$70mn. and \$22mn. of deutschemarks. The deutschemark and Swiss franc improved to 2.4965 and 2.1745 respectively. EMS narrowed to 1 9/16% between the deutschemark and Belgian franc (40.67). The Italians sold \$76mn., the Irish \$20mn. and the Germans \$17mn. The yen strengthened to 230.17.

Gold gained ground in the Far East as the dollar weakened this morning and was very active throughout the European day, ranging between \$417 and \$427. Fixings were \$422.50 and \$420, with the latter session very busy indeed.

Operations:	Market	+	\$11mn.
	Iran	+	20
	India	+	9
	Public Sector	-	7
	Interest		
	Sundries	+	1
		+	\$34mn.

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