

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 19th August 1981

Beneath the usual volatility, today was fairly inconsequential on the exchanges. The dollar closed broadly unchanged and only sterling, which was hardly active, scored modest gains. The ERI rose to 91.3.

The pound closed a touch easier at 1.8250 yesterday where the dollar was generally firmer following publication of a 3% increase in housing starts in July. This morning sterling began at 1.8290 and, for the most part, mirrored the dollar's fluctuations throughout the day. 1.8425 was paid late this morning and, early this afternoon, business took place at 1.8230 after some Swiss selling. The closing rate was 1.8300. Three-month Euro-dollar and sterling deposits were unchanged. The forward premium widened to 4 13/16% p.a. and the covered differential was marginally to London's advantage.

The pound gained nearly 1/2% in each of Paris (10.87%), Zurich (3.97%) and Frankfurt (4.56%). The dollar closed unchanged in these centres at 5.94 1/2, 2.1745 and 2.4965 respectively. An initially easier tendency was turned on news that US planes had shot down two Libyan planes over the Mediterranean. The Belgian franc appreciated again relative to its EMS partners and sent the punt (1.4640) to the foot of the band, which narrowed to 1 7/16% in width. The Irish sold \$33mn. and the Germans \$27mn., while the French bought \$40mn. (half of which in deutschemarks) and the Italians took in \$193mn. The yen, too, was barely changed at 230.27.

Gold gained around \$15 in New York late yesterday as a massive bear squeeze provoked hectic short-covering. The metal's trend today was uncertain and the price was seldom far from New York's closing level (\$435), save for a brief flurry following the Libyan incident. Fixings were \$433.50 and \$431.50.

Operations:	Market	+ \$8mn.
	India	+ 13
	Bangladesh	- 9
	Sundries	+ 4
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		+ \$16mn.
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	Overnight	+ \$20mn.
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*JG* 19th August 1981.

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