

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 20th August 1981

Sterling met strong commercial demand in New York yesterday and, despite some profit-taking in Europe this morning, succeeded in consolidating at levels considerably firmer than of late. Developments at the O.P.E.C. meeting were the prime determinant of movements in most markets. Sterling's ERI rose from 91.3 to 92.4.

Commercial stop-loss buying on a broad front carried the pound to 1.8550 in New York yesterday before closing there at 1.8530. In the Far East this morning, sterling was bid up to nearly 1.87 but profit-taking then set in and London's opening price was 1.8577. The opening exchanges were volatile. The pound touched 1.8670 but positions were again squared and a steady decline took the rate down to 1.8437 in late morning before it settled around 1.8500. The increase in sterling base rates by Chemical Bank and Chase Manhattan boosted sterling to 1.8550 but, with the dollar still recovering ground on Swiss professional buying, the rate had relapsed to 1.8440 by mid-afternoon. Federal funds opened slightly easier and remained steady around 18½%. Volcker spoke of a continuing tight monetary policy but predicted that the next significant move in U.S. interest rates would be downward. The dollar turned easier and, as signs of a closer agreement began to emerge from O.P.E.C. ministers, sterling was bid up strongly again to close at 1.8632. Three-month eurodollar and sterling deposits were both a touch softer. The forward premium, however, narrowed to 4 9/16% p.a. so that the covered differential turned modestly against London.

Since yesterday's London close the pound gained ⅜% on the Swiss franc (4.00½), ⅜% on the deutschemark (4.60½) and 1⅜% on the French franc (11.02½). The French franc (5.91½) suffered a resurgence of week-end pressure, which was taken entirely on the rate. It fell to the foot of EMS, 1⅜% distant from the deutschemark, which, at 2.4705, gained 1% on the dollar. The Irish sold \$15mn. and the Italians bought \$39mn. Elsewhere the Swiss franc was 1¼% firmer at 2.1485 but the yen gained only ½% at 229.

Gold was bid up to over \$440 in New York yesterday but was sold down to around \$430 by this morning's fixing and passed the rest of the day around that level. The fixings set prices of \$430.50 and \$429.

Operations:	Market	+	\$5mn.
	Iraq	+	13
	Interest	+	8
	Sundries	-	1
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		+	\$25mn.
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