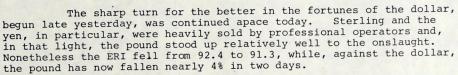
THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 25th August 1981



Sterling was sold down to 1.8320 in New York yesterday before rebounding on short-covering to close there at 1.8435. This morning it began at 1.8462 and immediately tended easier as the dollar began a further advance. The *larger professional banks were heavy sellers of pounds and the rate fell to 1.8255 before steadying around 1.83. Following publication of a 1.2% increase in the U.S. Consumer Price Index for July, the dollar was strongly bid again from New York. Sterling retreated down to 1.8172 before recovering to close at 1.8260. Later business took place around 1.82. The three-month forward premium widened substantially to 5½% p.a., more than offsetting a ½% rise in three-month eurodollar deposits (19 3/16%). This caused a dramatic turn in the covered differential which swung to ½% in London's favour.

The pound lost % in Paris (10.94%), % in Frankfurt (4.57%) and % in Zurich (3.97%). The dollar closed firmer in each of these centres at 5.9925, 2.5042 and 2.1760 respectively. The Belgian franc (40.85) returned to the foot of EMS, 1 11/16% distant from the deutschemark. The Bundesbank sold \$67mn., the Bank of France \$29mn. and the Irish authorities \$9mm. The Danes took in \$18mn. and the Italians \$52mm. The yen weakened to 231.90 before closing at 229.70.

Gold fell sharply in New York yesterday but was relatively steady in London today, albeit still on a softer tack. Fixings were \$410.50 and \$409.75.

Operations:

Market Bangladesh Interest Iran - \$14mn. - 9 + 11 + 5 - \$7mn.

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JGH