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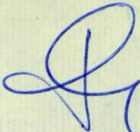
CS/rl

12.8.81

^{Mr}
MR HILL
MR GILL O/R

Copies to Mr Carse
CCO Markets Post

I should be grateful if you would arrange for short notes to be prepared for the Governor covering developments in the markets from Wednesday 12 August until midday on Wednesday 26 August. Could the notes be with the GPS by 1.00 pm on Wednesday 26 August, please?



Governor's Office HO-P
12 August 1981
A J V Giles (4421)

DAH B 12/8'81

FE440 07

Foreign Exchange and Gold Markets12th August - 26th August (noon)

Foreign exchange markets have been extremely nervous and volatile even by recent standards. Political and economic factors were dominant with attention focused on the OPEC oil price discussions, developments in Poland and the possibility of an EMS realignment. US interest rates showed no clear trend for most of the period but have firmed up in the last two days.

Sterling was on the sidelines at first, benefitting from the dollar's weakness in an active two way market. Later, however, it began to improve on its own account, boosted by professional and commercial demand (some of it for PRT payments) and encouraged also by the prospect of an increase in the official Saudi Arabian oil price and a cut in production. It reached \$1.8950, DM 4.62 and 92.5 in effective terms on Friday 21st August before easing back in the face of a much stronger dollar.

The dollar fell sharply in a wave of panic selling on August 12th and fluctuated considerably thereafter. Speculation about an EMS realignment and renewed tensions in Poland alternated with expectations of a fall in interest rates, which were encouraged by a statement by Volcker that the next move in US interest rates would be downward, although he also reaffirmed the Fed's commitment to a tight monetary policy. Growing concern about the size of the budget deficit and a 1.2% increase in the CPI during July however convinced the market that the credit squeeze is not yet over and the dollar has made up some of its earlier losses. The EMS came under pressure towards the weekend of 15/16 August on growing expectations of a realignment and both the Belgian Franc and the French Franc required support. However, in the absence of any realignment, pressures eased considerably, although the French Franc remained subject to pre-weekend nervousness. The Yen has strengthened overall, supported by occasional commercial demand.

Gold has been an active market, reacting largely to movements in the dollar. It reached \$433.50 following the shooting down of two Libyan planes by the US Air Force but has since softened to fix at \$413 this morning.

C F Sergeant *CSB*
Dealers Gimlet
26.8.81.

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SECRET

MAIN EXCHANGE RATES

	<u>11th August</u> (close)	<u>26th August</u> (noon)
£/\$	1.7710	1.8345
£/DM	4.5518	4.5642
£/SF	3.8974	3.9598
£/FF	10.9159	10.9428
ERI	90.2	91.5
\$/DM	2.5702	2.4880
\$/SF	2.2007	2.1585
\$/FF	6.1637	5.9650
\$/Yen	236.65	230.50
Gold	401.0	413.0

Intervention abroad (main items)

(\$mns.)

Ireland	- 180
Canada	+ 400
Belgium	- 360
France	- 500
Italy	+ 400
Germany	- 200
Sweden	- 140
Denmark	- 140

EEA Operations

+ 291 (of which Market + 33)