

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 2nd September 1981

Indications that the U.S. administration were contemplating further cuts in expenditure made for an easier dollar today although tightness in Federal funds on make-up day brought a partial recovery by the close. Sterling met further selling on commercial and professional account and the ERI declined to 90.8.

The pound closed better at 1.8405 yesterday in New York where the dollar was softer following newswire comment on the prospect of defence cuts. This morning the dollar started yet lower. Sterling began at 1.8450 and traded up to 1.8465 but hefty professional selling drove the pound swiftly down to 1.8410 before the market steadied. A very large commercial selling order also entered the lists at this stage - though doubtless only part of it was completed - and this tended to keep the pound depressed for much of the day. Sterling touched 1.84 early this afternoon but, despite an improvement in the dollar when Federal funds traded very firmly, the pound remained steady and recovered to 1.8440 before closing at 1.8418. Three-month sterling deposits eased to 13 13/16% while comparable eurodollars were unchanged (after technical adjustment) at 18 3/16%. The forward premium, however, narrowed sharply to 4 7/16% p.a. so that the covered differential turned modestly against London.

The pound lost $\frac{1}{8}\%$ in Switzerland (3.96 $\frac{1}{2}\%$), $\frac{3}{8}\%$ in France (10.75 $\frac{1}{2}\%$) and $\frac{1}{2}\%$ in Germany (4.49 $\frac{1}{2}\%$). The dollar eased in these countries to 2.1507, 5.8395 and 2.44 respectively. The Swiss franc remained relatively soft, easing to 0.88 $\frac{1}{2}\%$ against the deutschemark. EMS closed fully-stretched between the deutschemark and Belgian franc (40.02) and the Belgians sold \$6mn.-worth of deutschemarks while the Germans sold \$18mn. The Danes, however, took in \$32mn. and the French \$102mn. The yen advanced to 229.65. The Canadian dollar improved considerably following the agreement on oil-pricing between the Government and the province of Alberta. It closed at 119.50 against yesterday's 120.40.

Gold gained ground in New York yesterday and again in the Far East this morning in response to the softer dollar. Fixings were \$431.50 and \$430.

Operations:	Market	+ \$2mn.
	Interest	+ 6
	Sundries	- 1
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		- \$7mn.
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JGH 2nd September 1981

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