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SECRET

19.8.82

GPS

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FOREIGN EXCHANGE AND GOLD MARKETS
2ND-19TH AUGUST 1982

The exchanges have been very active and nervous, with the dollar benefiting from a "flight to quality" as participants have been worried about the liquidity problems facing AEG and sovereign borrowers such as Mexico. The dollar set new highs against most currencies on 9th August (the anniversary of its 1981 peak) and has since continued very firm. This has been despite a continued rapid decline in US interest rates which have been forced lower by the Fed. The discount rate was reduced by $\frac{1}{2}\%$ last Friday (the third such cut in four weeks) and three-month Eurodollars have fallen nearly 3% to a two-year low of just over 10%.

Sterling has been very stable, with good two-way business. The base rate cuts have been weathered without difficulty. A five-year low of 1.6870 was set on 9th August when the dollar peaked.

EMS has been under no pressure. The punt has established itself at the top, with the deutschemark at the bottom, the lira continuing outside the top of the $2\frac{1}{4}$ band.

The yen has fallen to a series of five-year lows and received heavy support from the Bank of Japan.

Gold has benefited from the lower financing costs.

19th August 1982.

TRS

Main Exchange Rates

<u>£</u>	<u>30.7.82</u>	<u>19.8.82</u>
	(c.o.b.)	(10 am)
\$/£	1.7405	1.7240
£/DM	4.28	4.29
£/SF	3.63	3.65
£/FF	11.90	11.99
ERI	91.5	91.5
<u>\$</u>		
\$/DM	2.4590	2.4875
\$/SF	2.0860	2.1170
\$/FF	6.84	6.9675
\$/yen	256.90	258.70
Gold	\$342.90	\$356.25

Main Intervention Abroad

(\$MN)

Japan	- 1,540
Canada	+ 620
Germany	- 290
Italy	+ 260

EEA Operations

+ \$260mn. (O/W Market +\$112mn.)