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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 1st July 1981

The new half-year brought little respite for sterling which remained a soft and nervous market throughout the day. Very heavy turnover was seen this morning. This afternoon the market was thinner and once again dominated by the rising cost of make-up day money in New York. The dollar's consequent firmness left sterling at its lowest level for three years. The ERI fell from 94.1 to 93.1.

The pound remained offered in New York yesterday and shed yet another cent to close there at 1.9167. Opening at that same price today, sterling saw good two-way business throughout most of the morning. Sellers, however, predominated for the most part. A commercial buyer of £50mn. in Europe was swamped by smaller but more numerous sellers while in the background lurked a stop-loss seller of pounds for deutschemarks, unwinding a position taken long ago. The dollar meanwhile was steady elsewhere and turned slightly firmer in late morning. Sterling recovered to 1.9192 after the opening wave had been deflected only to relapse to around 1.9075 whenever the selling was resumed. The dollar's trend was uncertain for much of the afternoon but, as Federal Funds crested 21% in late afternoon, it advanced to close at best levels, and sterling was marked back to finish at 1.9045. Three-month Euro-dollars were 9/16% better bid at 17%. Sterling's three-month premium widened to 5 3/4% p.a., leaving the covered differential marginally in London's favour.

The pound was a touch firmer in Switzerland (3.95 3/4) but 3/8% easier in Germany (4.60 1/2, after 4.59) and 1% weaker in France (10.94 1/2). The dollar was substantially firmer in all these countries at 2.0760, 2.4160 and 5.7462 respectively. The Swiss franc eased to nearly 0.86 to the deutschemark, as half-year positions were unwound. EMS narrowed to slightly less than 2% between the deutschemark and Belgian franc (39.51). The Belgians sold \$22mn., the Germans \$13mn., the Italians \$11mn. and the Irish \$33mn. Elsewhere the Swedes took in \$55mn. and the yen eased to 228.20.

Gold slumped further to \$418 this morning before fixing at \$421.25. Somewhat surprisingly the metal rallied on several occasions this afternoon, despite the soaring cost of carry. The later fixing set a level of \$422 and the closing price was \$426.

Full summary in NY folder

Operations:	Market	-	\$50mn.
	Iraq	+	19
	Iran	+	17
	Interest	+	12
	Sundries	+	8
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		+	\$6mn.
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	Overnight	-	\$38mn.
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