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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 6th July 1981

Press reports of Ministerial intentions to prop the pound gave sterling a better start to the week, although some of the gloss was erased when the dollar hit new record levels on the Continent. By mid-afternoon, however, the marked firming in sterling deposit rates was beginning to drive the pound higher and, when news broke that the Bank had lent to the market at a margin over MLR, there was a further substantial mark-up. The ERI advanced from 92.5 to 93.2.

The pound closed a little better at 1.8965 in New York on Friday, despite a generally firmer dollar. This morning sterling opened at 1.8980 and quickly traded up to 1.9020 as the press comment turned sentiment for the better. The dollar, too, was a good deal firmer, partly on its own merits, but partly perhaps as short sterling positions were unwound against Continental currencies. The pound's advance was cut short by the reappearance of Friday's seller on oil account and the rate fell away to 1.8825 while the order was washing through. This complete, however, the incipient recovery was aborted by a major upsurge in the dollar, following news reports in the Far East that Soviet troops were massing on the Polish border. Sterling touched 1.8775 early this afternoon with the dollar at its best and a clutch of small commercial sellers around. As the dollar stabilised, the pound fluctuated around 1.8850. Towards the close sterling deposit rates began to bite and the pound advanced rapidly to finish at 1.8915. Shortly after, following news of the market lending, the rate was marked up sharply to 1.9022. Three-month sterling deposits were nearly $\frac{1}{2}\%$ firmer at 13 $\frac{3}{16}\%$. With comparable Euro-dollar deposits unchanged at 18 $\frac{3}{16}\%$, the forward premium narrowed to 5 $\frac{1}{16}\%$ p.a. and the covered differential remained close to interest parity.

The pound regained $\frac{3}{4}\%$ in Switzerland (3.95 $\frac{1}{2}\%$), 1% in France (10.96 $\frac{1}{2}\%$) and 1 $\frac{1}{2}\%$ in Germany (4.62 $\frac{1}{2}\%$). The dollar advanced similarly in these countries to 2.0902, 5.7962 and 2.4470 respectively. Earlier it had set new five-year high marks against the deutschmark (2.4550) and Dutch florin (2.7249), a six-year high in Belgium (40.14), a ten-year best in Sweden (5.1757) and all-time records in France (5.8125) and Italy (1217.65). EMS was 2% spread between the deutschmark and Belgian franc (40.03). The Italians bought \$52mn. and the French took in deutschmarks worth \$35mn. but the Irish sold \$16mn. Elsewhere, the Swedes purchased \$25mn. and the yen weakened to 229.80, after a one-year low of 230.80.

Gold fell quickly this morning to new lows for the year. Fixings were \$403.50 and \$403.75 but the \$400 level was never seriously tested.

Operations:	Market	+	\$8mn.
	India	+	9
	Crown Agents	+	8
		+	\$25mn.

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