

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 7th July 1981

Sterling moved comfortably into today on the back of yesterday's money market operation. The dollar was a little softer from the start but otherwise remained very steady throughout the day. This afternoon the pound was undermined by the coalworkers' exalted pay demands and the Chicago IMM were heavy sellers. Sterling recovered nonetheless to close slightly better than yesterday, with the ERI up from 93.2 to 93.5.

The pound closed quietly at 1.9010 in New York yesterday, much as it stood after the mark-up which followed news of the Discount Market lending. This morning the Far East took some profit in the dollar in the wake of the unchanged US monetary aggregates. The tone for sterling was better, too, and the opening rate was set at 1.9087. The Swiss professionals were good, early buyers of the pound, which advanced to 1.9120 on the early exchanges. Later, however, a number of small commercial buyers - including a number of Chicago-based commodity traders - came to market and the pound surged forcefully ahead to 1.9195 before stabilising around 1.9150. The later morning saw some good, two-way business, mainly commercial in origin. Little change occurred until mid-afternoon. Any beneficial impact from the latest estimate of the money supply was spoiled by the miners' demands for a 25% pay increase. The IMM sold over £50mn. and sterling declined to 1.8995 before closing at 1.9020. Three-month Euro-dollars were a touch firmer (18½%); the forward premium was unchanged (5 1/16% p.a.) and the covered differential remained close to interest parity.

The pound gained ¾% in France (11.00½) and Germany (4.64%) and ½% in Switzerland (3.97½). The dollar was a little cheaper in Paris (5.7840) and Frankfurt (2.4443) but a fraction firmer in Zurich (2.0910). EMS remained around 2% spread between the deutschemark and Belgian franc (39.97). The Belgians sold \$24mn. and \$3mn.-worth of deutschemarks. The Italians sold \$25mn. and the Germans \$9mn. Elsewhere the Norwegians spent \$75mn. and the yen firmed to 228.90.

Gold breached the \$400 barrier in New York yesterday, trading down to \$397. This morning, the Swiss were active buyers and successive fixings set levels of \$402.50 and \$405.

Operations:	Market	-	\$18mn.
	India	+	10
	Sundries	+	4
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		-	\$4mn.
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