

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 10th July 1981

Some confusion over the future of the surcharge on large borrowers at the Fed's discount window caused the dollar to weaken quite sharply late yesterday. Most markets moved narrowly today but pressure built up on the French franc in advance of a four-day holiday. Sterling's ERI reflected the dollar's weakness, rising to 93.3.

In the wake of a decline in US Treasury Bill yields following reports that the special surcharge was about to be dropped, the pound touched 1.9120 in New York last night. It closed at 1.90 as the dollar clawed back some lost strength. Opening in London at 1.8985 this morning sterling began a day where, as soon as any activity ceased it would drift lower. Thus, after a brief look early on at 1.9042, it was at 1.8875 shortly after lunch - with no particular pressure behind the fall. It later rallied to 1.9020 as Fed Funds moved easier but closed at 1.8965 as the Funds rate edged up. Later, some sellers began to make their presence felt and 1.8880 was again seen. Euro-dollars eased to 19 9/16% at three-months; the covered differential remained at parity.

In Europe sterling had a mixed day, moving slightly lower in deutschemark terms (4.62%); easing to 3.94% in Switzerland; but rising to 11.07% against the French franc. The latter required support of \$34mn. and deutschemarks equivalent to \$45mn. today, \$23mn. having been expended in New York yesterday, as sellers appeared in force. The franc closed at 5.8412 (after 5.86%). EMS itself was not particularly comfortable: although it moved 1% against the dollar, the Germans sold \$27mn. at their fixing and the Belgians spent \$38mn. and deutschemarks worth \$10mn. Closing rates were 2.4405 for the German currency (after 2.43%) and 40.01 for the Belgian franc. The Italians, however, recouped another \$70mn. to temper the lira's improvement to 1217%. The Swiss franc rose to 2.08 but the yen was little changed at 228.45.

Gold took heart from the lower interest rate outlook in the US and rose to fix at \$415.25 and \$416.50.

Operations:	Market	-	\$28mn.
	India	+	10
	Interest	+	10
	Ghana	-	8
		-	\$16mn.

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DAHB

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