

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 14th July 1981

Sterling experienced a Monday night of some violence. Sellers did not actually appear in mobs but they made their presence known in no uncertain terms as the strength of official will to resist was tested. By daybreak greater calm prevailed and some ground was recovered. But the damage had been done, the ERI falling to 92.0 tonight (after a noon level of 91.7). There is little doubt that the recent social unrest, coming on top of a diminution in the benefit of North Sea oil and the continuing wide gap between domestic and American interest rates, has triggered the latest weak phase. The dollar demonstrated its resilience.

The IMM were heavy sellers of pounds yesterday and sterling fell to 1.8680 (after 1.8670). Far East centres then resumed the running battle and a further cent was lost but, as London reopened, sterling had recovered to 1.8605. The day proceeded much more orderly and calmly than could have been forecast at the outset. True, the pound was again offered and eased this morning to 1.8555 but an official presence was sensed, though not engaged, and a gradual recovery was resumed, partly on the back of a weaker dollar. After reaching 1.8675 sterling closed at 1.8645. Interest rates were steady and there was parity on the usual covered comparison.

On the Continent the pound fell sharply, with a loss of about $\frac{1}{2}\%$ in Germany (4.56 $\frac{1}{2}$), a little more in Switzerland (3.90 $\frac{1}{2}$) and nearly 1 $\frac{1}{2}\%$ in French franc terms (10.83 $\frac{1}{2}$). The dollar had made a bold recovery in New York as short positions, taken up on the latest money figures (which pointed to lower interest rates), were hastily covered in when Fed Funds resisted downward pressure. There was a slight reaction today. The deutschemark touched 2.4535 in early trading but the Bundesbank soon appeared as sellers of dollars and the rate eased back to 2.4473 at the close (after 2.4455) with the central bank's sales totalling \$114mn. EMS ended the day fully stretched, the Belgians having had to sell \$40mn., their franc easing to 40.13. The lira (1219) and French franc (5.8095) were relatively firm and the Italians bought \$76mn. The Swiss franc lost some ground vis-à-vis EMS, easing to 2.09 $\frac{1}{2}$. The Japanese resisted the dollar's advance by selling \$94mn. in Tokyo, where the yen closed at 231.10; it was little changed later in London.

Gold eased on the firmer dollar to fix at \$403.25 and \$402.25.

Operations:	Market	-	\$33mn.
	India	+	9
	Interest	+	6
	Sundries	+	7
		-	\$11mn.

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DAHB

