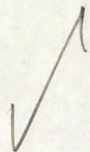


THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 15th July 1981

The calmer atmosphere in the streets last night contributed to a quieter day for sterling on the exchanges. A little of the recent nervousness seemed to disappear and from a modest level of activity in the morning a reasonable two-way market developed in the afternoon. The ERI improved from 92.0 to 92.4. A further easing in US short-term interest rates sparked off a sizeable flow from the dollar into the deutschemark.

As Fed Funds fell below 17% in New York last night, and some major banks reduced their broker loan rates by up to 1%, sterling moved up on the back of a weaker dollar to close at 1.8805. A little early pressure in the Far East was quickly seen off and the rate opened in London at 1.8810, improving to 1.8830 in the first half hour. However, as the dollar initially started to firm in Europe, sterling eased back in fairly light trading to touch 1.8740 in mid-morning before settling to trade around 1.88. As yesterday's break in the Fed Funds rate was confirmed by today's opening quote of 16½% sterling started to move up during the afternoon, helped by some professional buying from the US. The rate touched 1.8855 shortly before the close was taken at 1.8845. After the close, as the dollar weakened further, particularly against the deutschemark, sterling was quoted up to 1.8937. After technical adjustment, Euro-dollar rates were ½% firmer over the day, three-month deposits closing at 17 13/16%, and there was a small covered differential in favour of London.

Sterling was almost unchanged on the Continent, closing at 4.56½ in Germany, 3.91 in Switzerland and 10.83½ in France. The dollar fell by about 1% in each of these centres, closing at 2.4205, 2.0745 and 5.7615 respectively, but later it lost further ground and was quoted at 2.4072, 2.0675 and 5.74. For the second day running the Bundesbank intervened to support the deutschemark at the fix, selling \$24mn. The strength of the deutschemark caused a little tension in the EMS, where the Belgian franc (39.70) closed a full 2½% adrift after sales of \$46mn. and deutschemark worth \$12mn. The Dutch again provided support for the guilder (2.6970), selling \$52mn. and deutschemarks worth \$4mn. The Italians bought \$73mn. Outside EMS the yen (231.15) was again weak on interest rate differentials and the Bank of Japan sold \$89mn. in Tokyo.

The easier dollar and the prospect of lower US interest rates helped gold to stage some recovery. Fixings were at \$408 and \$412.25 but the price was later quoted up to \$417.

Operations:	Market	-	\$1mn.
	Sundry	+	1
			=====
	Overnight	-	\$6mn.
			=====

15th July 1981.

TRS

