

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

6
Thursday, 17th July 1981

Contradictory indications about the likely course of US interest rates made for a rather erratic day for the dollar on the exchanges. Fed Funds opened this afternoon at 19 $\frac{1}{4}$ %, 1% higher than expected, and Euro-dollar rates ticked upwards, but Chairman Volcker in testimony to the Joint Economic Committee in Washington said that the Fed was not pursuing 'high interest rate, dollar-appreciation policies'. The market chose to heed the latter, and yesterday's outflow from the dollar into the continental currencies, with the IMM to the fore, was resumed. Sterling was a very active, two-way market, particularly during the morning, but later, as the dollar weakened, it failed to keep pace with the European currencies and the ERI closed 0.3 lower at 92.1.

During a rather volatile evening in New York last night sterling was quoted up to 1.8975 but jibbed at going through the 1.90 level, closing at 1.89. This morning the rate opened at 1.8810 and initially traded up to 1.8855 in early business when a large commercial selling order entered the market. This was partially absorbed by a good-sized buying order but the rate dipped to 1.8780 before settling to trade actively around 1.88 until noon. Early New Yorkers sold sterling and the rate fell to 1.8745 before recovering, helped by a small amount of official support. The banking statistics had no discernible impact and turnover in sterling declined during the afternoon. However, as the dollar started to ease following Chairman Volcker's remarks, sterling failed to gain ground reaching only 1.8845 before the close was taken at 1.8830. Three-month Euro-dollars were 3/16% firmer over the day at 18 7/16%. Sterling's forward premium widened to 4 $\frac{1}{2}$ % and the covered differential moved to $\frac{1}{2}$ % against London.

Sterling slipped further on the Continent, losing $\frac{3}{8}$ % against the deutschemark (4.53 $\frac{3}{8}$), $\frac{1}{4}$ % against the French franc (10.75 $\frac{1}{2}$) but only $\frac{1}{8}$ % against the Swiss franc (3.89 $\frac{1}{2}$). The dollar was about $\frac{1}{2}$ % weaker in all these centres, closing at 2.4080, 5.7137 and 2.07 respectively. There was no support for the deutschemark by the Bundesbank today. EMS was a little more relaxed with the Belgian franc (39.47) only 2 3/16% below the deutschemark after sales of various currencies totalling \$44mn. The Dutch sold a further \$34mn., the Italians bought \$62mn. and the Danes bought \$10mn. Elsewhere, the yen (230.82) was again rather soft and the Bank of Japan sold \$62mn. in Tokyo.

In fairly active trading the gold price inched its way higher, fixing at \$417.25 and \$418.25. Later, however, it was quoted down to \$414.

| | | | |
|-------------|----------|---|-------------|
| Operations: | Market | - | \$9mn. |
| | Iran | + | 15 |
| | Interest | + | 12 |
| | Sundry | + | 9 |
| | India | + | 6 |
| | | | <hr/> |
| | | + | \$33mn. |
| | | | <hr/> <hr/> |

16th July 1981.

TRS