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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 17th July 1981

A better day for sterling, which was buoyed up by the rise in interbank rates and in ERI terms improved to 92.4. Turnover was light. The dollar consolidated overnight gains in anticipation of a tight Fed grasp on the Funds market today. The yen remained under pressure.

Since yesterday's close in London there has been only modest business in sterling, which closed in New York last night at 1.8770. It opened in London at 1.8690 today, ranging between 1.8665 and 1.8840 before closing at 1.88. Rumours of a pending change in Midland's base rate boosted sterling this morning and the announcement about the flbn. Treasury Bill tender helped to re-establish the higher level this afternoon. Euro-dollars failed to hold their mid-session rise, closing at 18 9/16% for three months. Sterling interbank had by then increased to 14 3/16%, making the covered differential 1/2% in London's favour.

The pound more than regained yesterday's losses in Europe, rising by about 1/2% to 4.56 1/2 in Germany, 10.84 1/2 in France and 3.92 1/2 in Switzerland. Against these countries' currencies the dollar had risen in New York yesterday; it retained its strength in a narrow price range today, closing respectively at 2.4270, 5.7690 and 2.0882. This caused some pressure to develop in EMS towards the close: the Belgian franc (39.81) required \$21mn. of support, mostly in deutschemarks and the Dutch spent \$20mn. and deutschemarks worth \$16mn. in defence of the florin. The Italians recouped \$26mn. The yen, however, was worst affected, following stop-loss selling by the IMM yesterday. The Bank of Japan sold \$39mn. in New York and another \$216mn. in Tokyo this morning, where the yen closed at 231.90. It eased in London to 232.27.

Gold fixed at \$414.50 and \$415. After reports of renewed Israeli attacks on Syria and the Lebanon the price rocketed to \$422.75.

Operations:	Market	+	\$9mn.
	Iran	+	17
	Interest	+	15
	India	+	9
	Sundries	+	9
	Government	-	14
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		+	\$45mn.
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