

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 22nd July 1981

After a short and insubstantial bout of selling from Switzerland in the first half-hour or so of trading the pound strengthened - in the main in counterpoint to the dollar's performance but at one time on speculative buying. The ERI improved to 91.8 after an opening 91.5. The latest American GNP figures caused the dollar to fall back this afternoon after it had rallied as Fed Funds continued to rise.

The late momentum given to sterling yesterday took it to a close of 1.8517 in New York. Early selling today saw the rate retreat from an opening 1.8480 down to 1.8422. Thereafter there was a steady rise to 1.8623, during which time a London-based bank was a good buyer. The dollar began to strengthen at this point and sterling moved back towards 1.85 but the US GNP figures reversed the dollar and the pound closed at 1.8570. Euro-dollars again opened bid and shaded up 1/16% but were marked lower on the GNP and finished at 18 3/4% - some 3/16% more expensive than last night, allowing for the usual technical adjustment. The covered premium remains at 3/16% in London's favour.

In Europe, the pound improved from opening levels but remained below last night's in most centres: it lost under 1/4% in Germany (4.54%) and Switzerland (3.89%) but shaded higher in France (from 10.80% to 10.80%). The dollar opened a little lower than last night but reached 2.46 1/2 again early on in Germany. By noon it had lost almost 2 pfennigs, the market being influenced by persistent reports that the FRBNY had been selling dollars in New York. The flow and ebb of interest rates led to an uneven session before the close at 2.4465, when the deutschemark was 2% stronger than the Belgian franc (40.02). The Germans sold \$13mn. The Irish were sellers of \$12mn. and the French were in action again as their franc came under a little pressure. It closed at 5.81 1/2 after sales of \$12mn. and deutschemarks worth \$45mn. The Dutch also sold German currency worth \$8mn. The Swiss franc closed at 2.1097. The Japanese kept out of their market this morning, having sold \$27mn. last night, although the yen eased in Tokyo to 235.60. It rallied to 234.72 in London.

Gold traded quietly, retreating from the \$410.50 New York level to fix at \$409.25 but rallying to \$411.50 at the second session - another market affected by the GNP figures.

Operations:	Market	+	\$16mn.
	Iraq	+	9
	Interest	+	9
	Sundries	+	1
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		+	\$35mn.
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