

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 24th July 1981

In what was generally rather a quiet day, a softer trend in U.S. interest rates during the afternoon helped to reduce the pressure that seemed to be building on sterling. The pound ended the day much more comfortably than seemed likely at various times during the morning, and the ERI rose 0.2 to 92.0.

Sterling was steady last night in New York where it closed at 1.8560 against an unchanged dollar. It opened at the same level in London this morning but immediately came under attack from one of the usual Swiss professionals and the rate fell to 1.8532 in the early going. As this selling dried up the rate recovered to 1.8570 by mid-morning but the dollar was also easing elsewhere. Towards lunchtime some sizeable commercial selling against Deutschmark entered the market and the rate had fallen back to 1.8525 (DM 4.52 $\frac{1}{2}$ ) by noon. The pressure continued over the lunch period, with early New Yorkers also selling some sterling, but was contained with the help of some modest official support. As Fed Funds opened in New York around 19-19 $\frac{1}{4}$ %, rather lower than expected, and quickly started to trade down to 18 $\frac{3}{4}$ %, Euro-dollar rates eased back and the dollar weakened generally. In light business, sterling moved up during the afternoon, to touch 1.8640 shortly before the close at 1.8625. Although firmer during the morning, three-month Euro-dollars ended the day  $\frac{1}{2}$ % lower at 19%. The reduction was more or less matched by a fall in sterling's forward premium to 4 $\frac{1}{8}$ % and the covered differential against London widened slightly to  $\frac{1}{8}$ %.

Sterling's performance in Europe was a little mixed: it was a touch weaker in Germany (4.53%) but gained  $\frac{1}{4}$ % in Switzerland (3.91 $\frac{1}{2}$ ) and rather less in France (10.80%). Overall the dollar was  $\frac{1}{2}$ - $\frac{1}{2}$ % weaker in all these centres, closing at 2.4360, 2.1042 and 5.8025 respectively. Fears of a realignment of the Belgian franc (39.94) within EMS over the weekend caused some pressure to develop and by the close the band was fully stretched. The Belgians sold \$20mn. and DM worth \$103mn. to support their franc, while the Bundesbank bought \$1mn. worth of Belgian francs. The Italians bought \$49mn. and the Danes sold \$13mn. Elsewhere, the yen (234.50) improved in line with the European currencies without support from the Bank of Japan. The Canadian dollar (1.2188) however was again weak and the Bank of Canada sold \$180mn. in support yesterday.

Gold was quiet and steady, seemingly unaffected by news of the ceasefire in Lebanon. Both fixings were at \$407.50:

|             |                   |   |                |
|-------------|-------------------|---|----------------|
| Operations: | Market            | - | \$36mn.        |
|             | Fed (o/a Nigeria) | + | 56             |
|             | India             | + | 9              |
|             | BIS               | + | 6              |
|             | Sundries          | + | 3              |
|             |                   | + | <u>\$38mn.</u> |

24th July 1981.

TRS