

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 30th July 1981

The dollar moved ahead in yesterday's markets on professional buying and on the latest estimates of the U.S. budget deficit, following the Reagan tax cuts, which pointed towards increased resort to borrowing. But it remained sensitive to change and a further rally at New York's opening was abruptly reversed when Fed Funds traded down, leaving it only slightly up on the day. Sterling was quietly firm, the ERI edging up to 92.2.

After a steady day in Europe, the pound closed in New York last night at 1.8530. It opened at 1.8462 this morning in London and immediately dipped to 1.8445 but found some demand later to peak at 1.8520. Although retreating, with other currencies, when the dollar rallied this afternoon (and touching 1.8450) it had recovered to 1.8505 at the close - once again reflecting a dollar movement generally. Eurodollars were little changed from Tuesday evening at the opening today but turned easier this afternoon, closing at 18 $\frac{1}{2}$ % for 3 months. With interbank sterling hardening to 14 $\frac{1}{2}$ % a covered differential of  $\frac{1}{2}$ % p.a. once again emerged in London's favour.

Sterling has improved since Tuesday in all European centres by about  $\frac{1}{2}$ %, rising to 4.56 $\frac{1}{2}$  in Germany, to 10.82 $\frac{1}{2}$  in France and to 3.95 $\frac{1}{2}$  in Switzerland. EMS was relaxed enough yesterday for the Belgians to buy another \$88mn. but it became fully stretched tonight and they had to spend \$20mn. today, when the franc closed at 40.43. The deutschemark remained at the top, closing today at 2.4655 (after 2.4750 in mid-afternoon); yesterday the Germans sold \$8mn. The Italians bought \$119mn. over the two days and the Irish sold a total of \$44mn. The French franc today touched a new (recent) low of 5.86 7/16 but closed at 5.84 13/16: they did not intervene. The Swiss franc ended at 2.1360. The Japanese sold \$17mn. in New York on Tuesday but have not intervened since. The yen closed today at 238.80, after 239.60. The Canadian dollar has recovered some ground: its final quotation in London this evening was 1.22 $\frac{1}{2}$ . The Bank of Canada sold \$125mn. in the last two days, almost all of which was on Tuesday.

Gold was steady and fixed twice at \$402.25.

Operations:	Interest	+	\$7mn.
	India	+	6
			<u>          </u>
		+	\$13mn.
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2