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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 3rd August 1981

The dollar moved through the day like a juggernaut, toppling lesser, recent currency idols in its path. Its momentum seemed to be derived from the Reagan tax cuts, which probably lay behind a firmer Fed Funds market today, but some commentators cited the growing crisis in Poland. Sterling fared, on balance, as other victims and the ERI fell to 91.5.

The pound eased in New York on Friday to 1.8315 before closing at 1.8360. With the Far East buying dollars, the first price in London today was 1.8262; there was an immediate adjustment to 1.8275 but the tone was clearly in the dollar's favour. At first sterling retreated only slowly as good two-way business developed but with pressure mounting this afternoon the rate closed in London at the day's low, 1.8105. Later the pound fell below 1.80. Euro-dollars moved a little higher, closing at 18 15/16% for three months. With the forward premium widening to 4 7/16% and interbank sterling at 14 3/4%, there was a covered premium of 3/4% p.a. tonight in London's favour.

Against other European currencies sterling showed small mixed changes: 4.55 1/2 in Germany, 10.79 1/2 in France and 3.97 3/4 in Switzerland. Surprisingly, perhaps, today's events caused no strains in EMS, where the lira (1246 1/2) took over as the strongest unit, some 2 1/16% above the Belgian franc (41.13). The dollar gained roughly 2% today. The Germans sold \$87mn. at their fixing (2.5035 - a five-year high), the deutschemark closing in London at 2.5160 (later it touched 2.5320). The French bought \$11mn.-worth of deutschemarks (net), their franc closing at 5.96 3/4 but in New York later reaching 6.01 1/4. The Swiss franc gave up over 2 1/2% to the dollar, at 2.19 1/2. In Tokyo this morning the Japanese sold \$102mn.: the yen closed at 243.65, easing further to 245.40 in London. The Canadian dollar received \$74mn. of support on Friday and was defended in Europe this morning: it had fallen to 1.2422 at London's close.

Gold retreated through \$400 in Singapore this morning but was steady in Europe, fixing at both sessions at \$392.50.

Operations:	Market	+	\$7mn.
	Pakistan	+	15
	India	+	9
	Tanzania	+	5
	Sundries	+	2
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		+	\$38mn.
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