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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 5th August 1981

A further counterattack on the dollar had more success at less cost today, the Germans again bearing the brunt. Once Continental centres had ceased their operations, however, the dollar moved ahead again as Fed Funds opened with a renewed firmness. Sterling was sold early on and lost ground almost everywhere. The ERI fell to another low, 91.0.

As buying orders for the dollar dried up last night other currencies recovered a little. Sterling closed at 1.8040 in New York. It opened at 1.8077 this morning after some Far East selling, rallied briefly to 1.8110 and then settled down quietly just below 1.81, slipping in the last hour to 1.8025 before closing at 1.8040. Euro-dollar rates were little changed, after technical adjustments. Three-months closed at 18 $\frac{3}{4}$ %, the covered premium remaining in London's favour, at 5/16% p.a.

The pound eased in Europe by up to $\frac{1}{8}$ %; it closed in Germany at 4.53%, in France at 10.81 and in Switzerland at 3.94%. The deutschemark strengthened to 2.4990 in mid-morning but closed at its weakest on the day, 2.5145, after the Bundesbank had sold \$250mn. There were sales of dollars also by the Belgians (\$74mn.) and French (\$50mn.) but these seemed to be more for domestic reasons than as concerted action because both francs were under pressure. By the close the Belgian unit was 41.18, about 2 $\frac{1}{2}$ % below the deutschemark, and the French currency was at 5.99 $\frac{1}{4}$. The Danes were sellers of \$38mn., the Dutch \$10mn. The Swiss franc was a touch firmer than the deutschemark, closing at 2.1847. The Japanese sold \$55mn. in New York last night but did not intervene this morning: the yen closed in Tokyo at 242.90 (after 239 $\frac{1}{4}$) and improved on good buying by a large Japanese bank in London to 241.22. The Canadian dollar fell further to 1.2451 in North America last night, receiving \$91mn. of support. It was better today but weakened this afternoon to end at 1.2434.

Gold fixed at \$392.60 and \$392.40: a sizeable offering this afternoon was eagerly absorbed.

Operations:	Market	-	\$31mn.
	India	+	18
	BIS	+	9
	Sundries	+	1
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		-	\$3mn.
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