

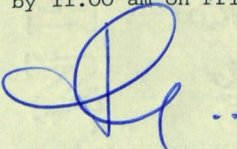
30. 7.81

FE 440.07

MR BYATT
MR GILL

Copies to Mr Carse
CCO Markets Post

I should be grateful if you would arrange for short notes to be prepared for the Governor covering developments in the markets from Monday 3 August until Thursday 6 August, inclusive, to be with GPS by 11.00 am on Friday 7 August. *attached.*


Governor's Office HO-P
30 July 1981

A J V Giles (4421)

DAH B 31/7⁵

FF440.07

SECRET

7. 8.81.

GPS

Copies to: Mr. Loehnis
Mr. Sangster

FOREIGN EXCHANGE AND GOLD MARKETS
3RD-6TH AUGUST 1981

Foreign exchange markets continued extremely active and nervous. The implications for US interest rates of the successful passage of President Reagan's tax cuts overshadowed the market taking the dollar to new high levels in all centres. On Tuesday the Germans organised some heavy concerted intervention by some European central banks and the Bank of Japan which succeeded in bringing the dollar back from its peaks.

Sterling was an active two-way market, somewhat on the sidelines for much of the time. It held fairly steady against the Continental currencies but there were periods of softness, particularly when the dollar was pushed back from its highest levels; sterling then failed to improve with the other European currencies. We provided some modest support on most days. The ERI fell 1.3 to a new low of 90.7 and the \$/£ rate touched a four-year low of 1.7915 in New York on 4th August.

US interest rates remained very firm (three-month Euro-dollars at 19 $\frac{1}{8}$ % and Fed Funds around 19%) and the dollar strengthened very sharply after the weekend, which precipitated the intervention. Although it ended a little below its best levels it was still extremely firm. EMS was quiet, with the Belgian franc at the bottom and the mark at the top of the narrow band, the lira having moved outside it. The yen was very volatile, weakening to 247.40 in Tokyo on 4th August but recovering to 240.42.

The gold price fell as the dollar strengthened, ending at \$393.25.

A table showing main exchange rates and intervention is attached.

7th August 1981.

TRS

MAIN EXCHANGE RATES

	<u>6th August</u>	<u>31st July</u>
	<u>close</u>	<u>close</u>
£/\$	1.7960	1.8480
£/DM	4.53 $\frac{3}{8}$	4.55 $\frac{5}{8}$
£/SF	3.93 $\frac{3}{8}$	3.95 $\frac{3}{8}$
£/FF	10.80	10.83 $\frac{3}{8}$
ERI	90.7	92.0
\$/DM	2.5240	2.4652
\$/SF	2.1927	2.14
\$/FF	6.0137	5.8615
\$/Yen	→ 240.42	239.67
Gold	\$393.25	\$406

Intervention abroad (main items)

(\$mns.)

Germany	- 1,200
Japan	- 290
Canada	- 250
Switzerland	- 220
France	- 120
Belgium	- 110
Denmark	- 70
Netherlands	- 60

EEA Transactions

+\$49mn. (of which Market -56)