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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 7th August 1981

Strong demand for yen and sterling this afternoon succeeded in halting the dollar's progress after it had been storming ahead again earlier, following the latest (lower) American unemployment figures; it was, in fact, turned back a little but nevertheless has achieved a net gain of about 3% this week against most currencies. The French franc was particularly weak on the news of their nationals' problems in Iran. The ERI eased to 90.6 (after a new low of 90.5 at the opening), principally because of the yen's strength.

The pound closed at 1.8032 in New York last night and opened at 1.8010 in London today. It tended to move broadly in line with the deutschemark but did lose touch for a short while. Against the dollar it fell to 1.7810 in mid-afternoon but this sparked off good commercially-based demand and the pound made a sprightly finish at 1.7945. Euro-dollars were unchanged but a narrowing of the forward premium for sterling reduced the covered comparison to parity.

The late rally helped the pound to pick up points in most European centres: it rose to 4.55 in Germany (after a decline below 4.52½) and to 10.90 7/16 in France but eased to 3.92 in Switzerland. The dollar's advance caused not a little anxiety in EMS which, by London's close, had broken out to 2½% in width between the Belgian franc (41.62) and the deutschemark, which closed at 2.5315 after 2.5410. The Bundesbank sold \$127mn. and bought Belgian francs equivalent to \$4mn. while in Brussels \$16mn. were spent together with deutschemarks equivalent to \$37mn., as devaluation fears were again voiced. The French franc was sold on the political uncertainties of the Iranian problem, falling at worst to 6.0975; with support of \$192mn. and deutschemarks equivalent to \$24mn. it had recovered to 6.0775 at the close - though part of this improvement is attributable to the general reversal of direction by the dollar. The Swiss franc firmed up, compared with last night, to 2.1850. The yen continued to be well wanted after good buying last night by the IMM: it closed at 236.30 in Tokyo and rose further to 234.15 in London.

Gold was a little firmer and fixings were at \$399 and \$397.25.

Operations:	Market	-	\$18mn.
	Ghana	-	7
	India	+	18
	Government	+	8
	Sundries	+	2
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		+	\$3mn.
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