

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 10th August 1981

Soviet sabre-rattling around the Polish borders incited a further flight into the dollar this morning and the trend was reinforced by growing fears of an impending devaluation of the French franc. Sales of dollars by the I.M.M. brought some turnaround this afternoon. Sterling was sold at times in a thin market. The ERI fell to 90.1 after posting a new low (89.7) at midday.

The pound closed at 1.7905 in New York on Friday with the dollar little changed. Eurodollars this morning were slightly easier following an encouraging set of U.S. monetary statistics but the dollar nonetheless opened sharply firmer following press reports of troop movements in Eastern Europe. Sterling began at 1.7765, touched 1.7770, then gradually gave up a cent as the dollar strengthened generally. Early Swiss selling apart, the pound saw little business of substance. Late this morning, however, the dollar began a further advance. Sterling met occasional selling but, for want of a buyer, lost ground disproportionately. The rate fell quickly to 1.7565 before the official hand induced a steadier market. This afternoon Chicago sold the dollar and sterling recovered to close at 1.7680. Three-month eurodollars lost $\frac{1}{2}\%$ (18 11/16%); the forward premium was $4\frac{3}{4}\%$ p.a. and the covered differential moved by almost $\frac{1}{2}\%$ in London's favour.

The pound was a touch firmer in Germany (4.55 $\frac{3}{4}$), little changed in Paris (10.90 $\frac{1}{2}$) and $\frac{3}{4}\%$ easier in Switzerland (3.90 $\frac{1}{2}$). The dollar firmed in these countries to 2.5755 (after 2.5785), 6.17 $\frac{3}{4}$ (after 6.19 $\frac{1}{2}$) and 2.2082 (after 2.2147). EMS was 2 $\frac{1}{2}\%$ spread between the deutschemark and Belgian franc (42.18). The Belgians sold \$48mn. and the Germans \$56mn. The Italians, however, took in \$76mn. as the lira (1269.75) pulled away from the narrow band. The French franc received substantial support as devaluation rumours escalated and \$85mn.-worth of deutschemarks and \$323mn. were spent by the Bank of France. Elsewhere the Swedes sold \$27mn. The yen eased to 237.40 but was not supported.

Gold eased at the opening in face of the stronger dollar but was thereafter relatively steady. Fixings were \$393.20 and \$393.75 and the close a touch firmer.

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|-------------|---------------|---|----------|---------|
| Operations: | Market | - | \$9mn. | |
| | FRB o/a Egypt | + | 9 | |
| | India | + | 9 | |
| | Post Office | + | 6 | |
| | Sundries | - | 5 | |
| | | | <u>+</u> | \$10mn. |

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