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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 13th August 1981

The exchanges were much calmer today with few dealers daring to predict the direction of the dollar's next movement. American interest rates showed no decided trend and, in the event, the dollar clawed back a little more of yesterday's losses. After a fairly active start, sterling traded without feature and the ERI dropped to 90.5.

The pound closed at 1.8070 yesterday in New York where the dollar continued the recovery begun in London's twilight, eventually recouping around a half of its earlier losses. This morning sterling opened at 1.8077 and saw a fair level of two-way business on the early exchanges as rates swung this way and that in the prevailing uncertainty. 1.8145 was paid for pounds at best but by mid-morning a definite trend in the dollar's favour had developed and the rate fell quickly to 1.7945 before settling around 1.80. New York then replayed this same theme in a minor key. Sterling topped 1.81 again but relapsed quietly to 1.7990 before closing at 1.8046. Eurodollars were modestly firmer - the three months at 18 11/16% - while longer sterling deposits were a touch softer. Sterling's three-month premium widened substantially to 4 1/2% p.a. so that the covered differential turned modestly in London's favour.

The pound lost 1/2% in Germany (4.53%) and 1/2% in Switzerland (3.90%) but regained over 1% in France (10.84%). The dollar recovered in those countries to 2.5125, 2.1630 and 6.01 respectively. EMS closed 2 3/16% spread between the German and Belgian (41.17) currencies. The Belgians sold \$93mn. and the Bundesbank bought \$4mn.-worth of Belgian francs. The Danes sold \$95mn. following local press speculation on an imminent realignment; the French spent only \$55mn. and the Italians lost \$26mn. The yen retreated to 232.12.

Gold lost a little more ground in the Far East this morning but was thereafter very steady. Fixings were \$407.50 and \$407.25.

Operations:	Market	+	\$1mn.
	I.M.F. o/a Yugoslavia	+	61
	Interest	+	23
	B.I.S.	+	18
	India	+	14
	Sundries	+	4
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			+ \$121mn:
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