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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 17th August 1981

The pound met strong demand this morning on oil company account and again this afternoon from the United States following Yamani's expressed hopes of achieving a unified OPEC price by Wednesday. The dollar tended easier - and was widely sold this afternoon - on renewed speculation that the turn in interest rates is nigh. Sterling's ERI advanced to 91.3.

The pound shed a cent on Friday in New York, where the dollar was very much firmer following the substantial increases in the US monetary aggregates, and closed there at 1.7950. This morning, despite a $\frac{1}{2}\%$ increment to Euro-dollar deposits, the dollar could not maintain the better levels and was generally sold in Europe from the outset. This owed something to the improved Polish situation and something, too, it was said, to fears of concerted Central Bank support for their currencies. Undoubtedly there was also some unwinding of short French franc positions, following the lack of any EMS realignment over the weekend. Sterling opened at 1.7980, touched 1.7965 then advanced quickly to establish a trading range around 1.8050. Business was fairly brisk and a clutch of buying orders included £75mn. purchased by an oil company. Early this afternoon, Yamani's statement brought active bidding for pounds from New York and Chicago and this set in motion a further run on the dollar which was now affected by rising expectations of some policy easing from tomorrow's FOMC. Sterling was rushed up to 1.8320 at best but, with demand sated, the market quietened and the pound relapsed to close at 1.8215. Euro-dollars lost most of their earlier gains despite a $\frac{1}{2}\%$ rise in Federal Funds to 18 $\frac{1}{2}\%$. Sterling deposits were firmer. The three-month premium narrowed to 4 $\frac{3}{4}\%$ p.a. and sterling retained an intrinsic premium of around $\frac{1}{2}\%$.

The pound gained $\frac{1}{8}\%$ in Paris (10.91 $\frac{1}{2}$), $\frac{1}{4}\%$ in Frankfurt (4.56 $\frac{3}{4}$) and $\frac{1}{8}\%$ in Zurich (3.96 $\frac{1}{2}$). The dollar eased in these centres to 5.99 $\frac{1}{4}$, 2.5057 and 2.1782 respectively. EMS was 2 $\frac{1}{16}\%$ spread between the deutschemark and Belgian franc (41.01). The Irish sold \$30mn. and the Germans \$16mn. while the Italians took in \$104mn. The yen firmed to 231.30.

Gold was quiet and steady with fixings at \$409.50 and \$411.50.

Operations:	Market	+	\$2mn.
	Interest	+	15
	India	+	9
	Sundries	-	1
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		+	\$25mn.
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