

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 21st August 1981

Despite the collapse of the O.P.E.C. pricing talks this afternoon, sterling remained very firm as the dollar continued its softer trend. The ERI slipped back to 92.3.

The pound closed at 1.8590 yesterday in New York where the dollar was generally a little firmer. The Federal Reserve's readiness to assist the housing institutions was taken to portend no immediate reduction in the discount rate or surcharge. This morning, however, European markets took the opposite view. The pound opened at 1.8627 and rose to 1.8680 as the dollar retreated. As the £/DM cross-rate passed 4.60 professional selling of pounds for deutschemarks was seen from German banks and sterling subsided to 1.8594, recovering soon enough to around 1.8675 by early afternoon. With Federal funds opening around 17½%, the dollar eased further. Sterling moved ahead to 1.8765 but was cut down to size when the O.P.E.C. pricing meeting broke up in disarray. The closing rate was 1.8675. Three-month eurodollar (18 11/16%) and sterling deposits were again both a little softer. The forward premium was unchanged at 4 9/16% p.a. and the covered differential remained modestly against London.

The pound was a touch firmer in Zurich (4.00½), a little easier in Paris (11.01½) and ¼% lower in Frankfurt (4.58½). The dollar retreated in each of these centres to 2.1440, 5.8985 and 2.4572 respectively. The French franc closed 1½% distant from the deutschemark in EMS. The French sold \$87mn. (of which \$49mn. in deutschemarks), the Germans spent \$15mn. and the Irish \$10mn. The Italians bought \$18mn. and the Danes \$8mn. Elsewhere the Swedes lost \$21mn. but the yen firmed to 227.37.

Gold was quiet and steady, lacking a firm trend. Fixings were \$428.50 and \$429.50.

Operations:	Market	+	\$7mn.
	India	+	9
	Sundries	+	4
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		+	\$20mn.
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