

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 24th August 1981

In very thin markets, sterling touched a new, recent high this morning before retreating later in front of a burgeoning dollar. The ERI rose to 92.4. After the close, a reassessment of the interest rate outlook in U.S. domestic markets brought a sharp appreciation in the dollar: sterling, in particular, was heavily sold.

Following the Saudi declaration that oil production would be reduced, sterling was dealt up to 1.8950 in New York on Friday before closing there at 1.8887. In the Far East this morning 1.8930 was paid for pounds but this level brought considerable professional selling and London's opening price was 1.8760. The pound fell to 1.8725 as the dollar tended firmer - eurodollars were harder following increases in both the U.S. monetary aggregates and orders for durable goods - but recovered to 1.8790 when the dollar met substantial commercial selling in Germany. Markets remained thin and German professional demand took the dollar back to best levels by midday, sterling falling to 1.8710. Early Americans sold the dollar, sterling advancing to 1.88, but, with U.S. domestic markets opening in very pessimistic vein, the dollar recovered strongly and sterling was marked back to 1.8712 before closing at 1.8720. After the close, American debt markets continued their precipitate decline. The dollar surged forward and sterling bore the brunt of its advance, falling sharply to 1.8325 before steadying. Three-month eurodollars were nearly $\frac{1}{2}\%$ firmer (18 $\frac{1}{2}\%$). The forward premium widened to 4 $\frac{1}{2}\%$ p.a. but the adverse covered differential rose to around $\frac{1}{2}\%$.

At London's close, sterling was fractionally firmer against the Swiss franc (4.00 $\frac{1}{2}\%$), $\frac{1}{2}\%$ better against the deutschemark (4.60 $\frac{1}{2}$) but $\frac{1}{2}\%$ easier on the French franc (10.98 $\frac{1}{2}\%$). An hour later, the pound purchased only DM 4.57. The Swiss franc (2.1402) was a little firmer at the close (but later 2.1610), the deutschemark (2.4597) a little easier (and later 2.49). The French franc (5.86 $\frac{1}{2}$) finished at the foot of EMS, only 1 3/16% distant from the deutschemark. The Belgian and Irish currencies were only fractionally firmer than the French. The Irish sold \$17mn. but the Italians took in \$25mn. and the French bought \$32mn. and \$37mn.-worth of deutschemarks. The yen eased to 227.92.

Gold was quiet and steady this morning and the fixing was little changed at \$428.50. This afternoon the metal softened as the dollar firmed. The later fixing set a level of \$422.

Operations:	Market	+	\$4mn.
	Sundries	+	\$3mn.
		+	\$7mn.
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	Overnight	-	\$29mn.
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