

THE DEPUTY GOVERNOR.

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 26th August 1981

The exchanges were better balanced today. The lower levels of Federal funds and a better tone in US domestic markets provoked some profit-taking in the dollar. Sterling absorbed some substantial corporate selling and the ERI improved to 91.4.

The pound closed a cent firmer at 1.8360 yesterday in New York, where the dollar eventually eased in response to Federal funds trading below 16%. This morning the dollar opened uncertainly. Sterling began at 1.8332, firmed initially to 1.8377, but then sold off as dollars were generally bid, especially for yen. With sizeable commercial selling in evidence, the pound fell to 1.8250 but, as the dollar crested DM2.50, profits were taken and sterling recovered to opening levels. This afternoon Federal funds opened at 16½%, somewhat easier than expected, and American debt markets were comfortable. The dollar continued easier and, despite another large selling order, sterling recovered to 1.8420 before closing at 1.8375. Later the Federal Reserve moved to drain funds from the market but the dollar eased yet further and the pound climbed to 1.8460. The three-month forward premium was little changed at 5 9/16% p.a. With dollar deposits only slightly firmer, sterling's intrinsic premium remained around ½%.

The pound lost ¾% in Germany (4.55%), ½% in Switzerland (3.95½) and ¼% in France (10.88%). The dollar weakened in these countries to 2.4782, 2.1510 and 5.9250 respectively. The deutschemark and Belgian franc (40.50) spanned EMS, 1¼% apart. The Germans sold \$37 mn., the Irish \$24 mn. and the Dutch \$14 mn. (including \$4 mn. in deutschemarks). The French bought \$39 mn. (of which \$15 mn. in deutschemarks) and the Italians took in \$122 mn. Elsewhere the Swedes spent \$23 mn. and the Japanese sold \$5 mn. in New York yesterday. The yen was sold down to 232 this morning before closing at 230.45.

Gold gained ground as the dollar eased but failed to hold best levels this afternoon. Fixings were \$413 and \$414.

Operations:	Market	+ \$9 mn.
	Government	+ 5 mn.
	Ghana	- 9 mn.
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		+ \$5 mn.
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