

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 28th August 1981

Another fairly quiet day saw the dollar ease as interest rates declined further. Sterling, however, was depressed by a large sale on foreign official account and the ERI dropped to 91.3.

The pound closed weaker at 1.8310 yesterday in New York where a recent bulldog borrower played havoc with a thin market by trying to unload his proceeds. The order was completed in the Far East and Europe this morning and kept the pound in check for much of the day. Sterling opened at 1.8377 and traded around that level all morning, dipping to 1.8350 at one stage. This afternoon, Federal funds opened comfortably and declined to 16% without intervention by the Federal Reserve. The dollar eased. Sterling rallied to 1.8470 before closing at 1.8455. Three-month eurodollars were $\frac{1}{2}$ % softer at 18 11/16%. The forward premium narrowed to 4 $\frac{1}{2}$ % p.a. and the covered differential remained at $\frac{1}{2}$ % in London's favour.

The pound lost $\frac{3}{8}$ % in France (10.85%) and $\frac{1}{2}$ % in Switzerland (3.93%) and Germany (4.52%). The dollar fell in these countries to 5.8825, 2.1345 and 2.4540 respectively. EMS closed 2 $\frac{1}{2}$ % spread between the deutschemark and Belgian franc (40.19). The usual week-end nervousness provoked sales of \$99mn. (including \$70mn. in deutschemarks) by the Belgians and \$33mn. in deutschemarks by the French, who also bought \$5mn. The Germans sold \$10mn. and the Irish \$12mn. but the Italians took in \$137mn. Elsewhere the Swedes sold \$63mn. and the yen hardened to 229.72.

Gold rallied strongly in New York yesterday. The fixings today set levels of \$425.50 and \$425.

Operations:	Sundries	+ \$2mn.
	Overnight and Bank Holiday	- \$4mn.

The result for August is a fall in reserves of \$57mn. to a level of \$24,511mn., after public sector debt repayments of \$28mn. The overbought forward position was increased by \$115mn. to \$1,264mn.

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