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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 9th ^{MARCH} April 1981

It was a rather strange day on the exchanges, with sterling much the main focus of interest. After a quiet and soft morning, the pound came into strong demand during the afternoon from New York and Chicago, prompted by fears that the Chancellor tomorrow will announce an MLR cut of only 2%, rather than the 3-4% many in the market were expecting. The ERI rose 0.4 to 99.1, after 98.1 at the opening. Following the falls in the money supply announced on Friday (M1A -\$1.8bn. M1B -\$1.3bn.) Euro-dollar rates opened $\frac{3}{4}\%$ lower this morning and the dollar generally weaker. In quiet markets it lost a little further ground over the day.

Sterling closed in New York on Friday at 2.1880 and opened in London this morning at 2.1902. After touching 2.1905 in early business, the rate started to ease back against a gently strengthening dollar, falling to 2.1837 shortly before noon. Activity was generally at a low level but small amounts of professional selling from the Continent, particularly Amsterdam, were seen during the morning. The entry of New York around lunch-time saw a change in tone and sterling immediately started to move up, with reports of some sizeable professional and commercial buying. Chicago followed New York's lead and sterling strengthened throughout the afternoon, reaching 2.2160 shortly before the close was taken at 2.2130. Three-month Euro-dollars finished 7/16% lower than on Friday at 16 $\frac{1}{2}\%$ but sterling's forward premium narrowed to 3 $\frac{1}{2}\%$ and interest parity again prevailed.

The pound was a little firmer on the Continent at 4.68 $\frac{1}{2}$ in Germany, 4.29 $\frac{1}{2}$ in Switzerland and 11.06 $\frac{1}{2}$ in France. The dollar on the other hand, was just a touch easier in all these centres at 2.1225, 1.9422 and 5.0015 respectively and it weakened further in late business. The Bundesbank reduced the amount supplied under the special Lombard facility from DM 17.5bn. on Friday to DM 8bn. and the mark regained the top position in the EMS. The Belgian franc (34.83) was fully stretched against the mark at the close, the Belgians having sold \$40mn. equivalent of DM and the Germans having bought Belgian francs worth \$3mn. The lira (1029.85) closed 4% below the mark. The Danes sold \$20mn. and the Irish \$5mn. The yen was quiet but firmer closing at 207.35 in Tokyo and 206.32 in London.

Encouraged by lower Euro-dollar rates, gold made a cautious advance. Fixings were at \$473.25 and \$474.25 but in late trading the price reached \$478.

Operations:	Market	+	\$4mn.
	British Airways	+	50
	(PSB G'teed)		
	Crown Agents	+	11
	India	+	11
	IDA	+	9
	Interest	+	7
	Iran	+	5
	British Airways	-	40
	Sundries	-	3
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		+	\$54mn.
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9th March 1981.

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