

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 10th March 1981

An interesting day in the markets. Sterling was an active two-way market in the morning but business dried up completely in the early afternoon as dealers awaited the contents of the Budget. By the close, which was taken before the Chancellor had reached the main part of his speech, the ERI was 0.5 lower at 98.6. The dollar weakened in New York last night where Fed Funds moved down to the 14% level. Today it lost further ground in Europe as a number of major banks, led by Citibank, cut their primes $\frac{1}{2}\%$ to 18%.

Sterling lost some of yesterday's gain overnight in New York where it closed at 2.2062 against a weaker dollar. This morning it opened at 2.2095 and after firming initially to 2.2160 started to move down in active trading. In mid-morning the selling became rather more sizeable as it appeared that some banks were prepared to go into the Budget with short sterling positions and the rate fell to 2.2055 although it recovered to 2.2115 by noon. Over the lunchtime period all trading effectively ceased and in an extremely thin market sterling was quoted down to 2.20 but with no business transacted. The afternoon was quiet and the rate firmed to 2.2170 shortly before the close at 2.2150. Later, following the Chancellor's statement, the rate moved widely in a thin market and after initially being quoted up to 2.23 $\frac{1}{2}$, was shortly afterwards some two cents lower. Three-month Euro-dollars lost $\frac{3}{8}\%$ over the day but sterling's forward premium remained at 3 $\frac{3}{8}\%$ and there was a covered differential of $\frac{1}{4}\%$ in favour of London.

The pound weakened on the Continent, falling $\frac{3}{8}\%$ in Germany (4.65 $\frac{1}{2}$), 1 $\frac{3}{8}\%$ in Switzerland (4.23 $\frac{1}{2}$) and $\frac{7}{8}\%$ in France (10.97 $\frac{1}{2}$). The dollar was also easier in all these centres, closing at 2.1020, 1.9130 and 4.9550 respectively. The mark again closed at the top of the EMS, but the Belgian franc (34.39) improved to only 2% below after sales of DM worth \$56mn. The French sold DM worth \$208mn. The lira (1021.25) widened to 4 1/16% adrift after sales of \$50mn. The Danes sold a further \$25mn. and the Irish \$26mn. Elsewhere, the Swedes sold \$10mn. The yen was a little weaker, at 206.40 in Tokyo and 206.57 in London.

Gold was extremely active and the fixings were protracted and difficult. Lower US interest rates and the rising price of platinum helped yesterday's rally to continue, despite heavy selling from the Far East. Fixings were at \$484.50 and \$487.25.

Operations: Sundries + \$6mn.

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