

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 18th March 1981

The combination of two key economic statistics published yesterday for the USA (industrial production -0.5, housing starts -24.6%) unlocked another time of insecurity for the dollar. As a result, sterling's ERI vaulted to 100.2.

The movement against the dollar began in the middle of New York's yesterday. The pound closed there at 2.2660 and opened this morning in London at 2.2715. It was a featureless day (though some commercial buying developed after the close) and the rate fluctuated between 2.2750 and 2.2675 before the close at 2.2725. There was business later at 2.2780. Forward margins narrowed in response to lower Euro-dollar rates (three-months' at 13 15/16%) and there was a covered premium of 1/8% for sterling at the close.

As the pound gained only 1/8% in dollar terms, compared with 1% by other European currencies, it moved a little lower against the deutschemark (4.68 1/2), French (11.07 1/2) and Swiss (4.26 1/2) francs. Although EMS looked uncomfortably stretched at times only the Italians intervened: they sold \$196mn. as the lira improved to 1008 1/2, nearly 4 1/2% below the deutschemark. The latter strengthened to 2.0635 whilst the weakest currency, the Belgian franc, improved to 33.87. The Swedes were able to buy \$100mn. In Switzerland the dollar eased to 1.8755 but it improved to 207.67 in yen terms in London after easing to 206.95 earlier in Tokyo.

Gold was very erratic, struggling to go higher as the dollar, and the cost of financing, weakened but then encountering bouts of heavy offering. Fixings were at \$510.25 and \$506; the price later rose to \$512.75.

Operations:	Market	+	\$28mn.
	India	+	11
	Zambia	-	7
	Sundries	+	11
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		+	\$43mn.
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