

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 23rd March 1981

The latest events in Poland and a fresh rise in American interest rates gave the dollar a healthier look today. Devaluation put little colour back into the lira; the Belgian franc continued to suffer. Sterling opened weak but rallied strongly and the ERI edged back only to 100.1, after 99.6 at the opening.

Some pressure developed on the pound late on Friday out of Chicago and the rate ended the week in New York at 2.2555. The Far East were buyers of the dollar today and in London sterling began at 2.2385. It bottomed out at 2.2362 and was quietly firm until early this afternoon when it responded to buying orders and touched 2.2530 before closing at 2.25 - nearly 1% lower than on Friday. A further £35mn. was bought for the European Commission. Euro-dollars opened ¼% better bid at three months and rose another ¼% during the day, closing at 14 9/16%; the covered differential reverted to parity.

In Europe, the pound rose a further ¼% in Germany (4.69%), France (11.06%) and Switzerland (4.27%); and by over 2% in Italy (from 2294½ to 2343½). The dollar gained about 1¼% in Germany (2.0885) although the rate moved very little today, the major advance having taken place in the Far East. The lira opened at 1045 and promptly improved to 1027½ at which moment it was stronger, in terms of deviation from its new central rate, than the French franc. It soon slipped back and was heavily supported (the Italians sold \$340mn.) before the close of 1041½, about 7/16% below the French franc (4.9195) which continued to lead EMS. The Belgian franc was subject to further selling pressure: it weakened to 34.25 after sales of \$99mn., almost equally in deutschemarks and French francs. To mop up liquidity for three days the Germans swapped out \$1bn. The Swiss franc eased in line with EMS, closing at 1.90; the yen was marginally lower at 208.54.

Developments in Poland caused a rush for gold in New York on Friday and \$540 was paid. In a quiet morning session today, London fixed the price at \$535.75; profit-taking forced gold lower this afternoon to a fix at \$526 but it had recovered to \$530 later.

|             |            |   |             |
|-------------|------------|---|-------------|
| Operations: | Government | - | \$20mn.     |
|             | Sweden     | - | 11          |
|             | BIS        | + | 11          |
|             | Iran       | + | 5           |
|             | Sundries   | + | 8           |
|             |            |   | <hr/>       |
|             |            | - | \$7mn.      |
|             |            |   | <hr/> <hr/> |

*DAHB*  
23rd March 1981.

DAHB