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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 25th March 1981

The exchange markets were proclaimed relatively quiet today, sterling and dollar each tending stronger. The ERI was steady at 100.6.

In New York last night the dollar took heart from a growing tightness in the Fed Funds market: sterling closed at 2.2565. It opened in London at 2.2615 today and moved between 2.2690 and 2.2575 before closing at 2.2593, with the dollar in a temporarily resurgent mood. Allowing for the usual technical factors, Euro-dollars were some $\frac{1}{2}\%$ better wanted - thus helping the dollar itself in the exchanges. The three-months' rate closed at 14 $\frac{9}{16}\%$ but forward margins compensated and the covered differential remains around par.

The pound moved up to 4.72 $\frac{1}{2}$ in Germany, 4.30 $\frac{1}{2}$ in Switzerland and 11.14 $\frac{1}{2}$ in France. The dollar improved by about $\frac{1}{2}\%$ in Continental Europe. The deutschemark stayed at the top of EMS, easing to 2.0930, 2 $\frac{1}{16}\%$ above the Belgian franc (34.27); some of the pressure on the latter was relieved by the rises in Bank Rate from 12% to 13%, in Lombard Rate from 13% to 15% and in the introduction of a more expensive special Lombard facility: only \$27mn. in deutschemarks was lost. However, the lira required a further \$150mn. of support as the rate was apparently prevented from weakening beyond 1042. It closed at 1041.85, just $\frac{1}{2}\%$ below the deutschemark. The Irish were sellers of \$24mn. The Swiss franc weakened in sympathy with EMS, to 1.9070; the yen was slightly lower at 209.02.

Gold was steady this morning, fixing at \$533.25, but was on offer later and the price eased in the second fixing to \$528.

Operations:	PSB (various)	+	\$46mn.
	IDA	+	23
	BIS	+	11
	Government	-	12
	Sundries	-	8
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		+	\$60mn.
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