

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 27th March 1981

Failure by the FRBNY to supply reserves caused money rates to tighten in New York last night and pulled the dollar higher. There was some reaction today, particularly after the latest German monthly trade surplus of DM 864mn. was revealed. Sterling was hit by two large selling orders and the ERI fell back to 100.4, after 101.2 at the opening.

The pound closed in New York yesterday at 2.2285. It opened today in London at 2.2350 and had moved to 2.2427 before a German bank appeared as a buyer of \$40mn. The rate then fell back, its decline accelerating when a central bank joined in as a buyer of \$60mn. After 2.2220 sterling recovered to close at 2.2295. Euro-dollars took their cue once again from developments in the US domestic market and rose to 15 3/16% for three months. The covered differential against London narrowed to 1/16% p.a.

*15 3/16 %  
None change*

In Germany sterling was unchanged at 4.74 but it weakened in France (11.16 $\frac{1}{2}$ ) and Switzerland (4.31 $\frac{1}{2}$ ). The dollar gained a net 1 $\frac{1}{2}$ %, rising to 2.12 $\frac{1}{2}$  against the deutschemark which continued to lead EMS. Although the arrangement ended only 2 $\frac{1}{2}$ % wide, the Belgians again had a miserable day: they sold deutschemarks worth \$346mn., Swiss francs worth \$34mn. and \$3mn. of French francs, with the Germans buying a mere \$2mn. of Belgian currency. The franc closed at 34.81. The lira weakened to 1062, about  $\frac{1}{2}$ % below the deutschemark, after sales of \$158mn. (making \$848mn. since devaluation). The French sold \$29mn. and deutschemarks worth \$5mn.: their franc closed at 5.00 $\frac{1}{2}$ . The Swiss franc fell to 1.93 $\frac{1}{2}$ . The yen declined less sharply to close at 212.02 in London.

Gold reached \$550 in New York when the four-hour strike in Poland became certain. But after it was fixed at \$547.25 this morning some operators became disheartened at the failure to hold the higher level and the price declined to \$538.75 at the second session.

Operations:	Market	-	\$3mn.
	IDA	+	30
	Interest	+	27
	India	+	7
			<hr/>
		+	\$61mn.
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27th March 1981.

DAHB

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