

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 6th April 1981

A large and speculative commercial seller sent sterling reeling this morning. However, with the dollar continuing to advance behind rising interest rates and developments in the Polish situation, the pound's losses on the Continent were contained within reasonable bounds. Nonetheless, the ERI fell from 99.5 to 98.7.

The pound was traded down to 2.1895 in New York on Friday before closing at 2.2010. This morning it opened at 2.1912 and was dealt around this level for a good while, touching 2.1935 at best, despite a much stronger dollar. In mid-morning, however, the selling order hit an unwilling market. The rate fell in three distinct phases, touching bottom at 2.1670 as the order was completed around lunchtime. Thereafter, in the face of continuing dollar strength, the pound held up remarkably well, recovering to 2.1795 before closing at 2.1760. Three-month Euro-dollars were over  $\frac{1}{2}\%$  better bid at  $15\frac{1}{2}\%$ ; sterling's three-month premium widened in consequence to  $3\frac{3}{4}\%$  p.a. and the intrinsic premium was thus unchanged at  $1/16\%$ .

The pound lost  $\frac{3}{8}\%$  in Zurich (4.26 $\frac{1}{2}$ ),  $\frac{3}{8}\%$  in Frankfurt (4.67 $\frac{1}{2}$ ) and  $\frac{3}{8}\%$  in Paris (11.00 $\frac{1}{2}$ ). The dollar gained around  $1\%$  on the Continent rising to 1.9620 on the Swiss franc, 2.1481 on the deutschemark and 5.0577 against the French franc. EMS was  $2\frac{3}{4}\%$  spread, the French franc replacing the deutschemark at the head, and the Belgian franc (35.17 and 91 on the divergence index) still at the tail. The Belgians sold \$22mn. of sterling and a few French francs. The Irish lost \$29mn. but the Swedes took in \$30mn. The yen was little changed closing at 214.30 in Tokyo and in London at 213.95.

Gold advanced sharply on Polish considerations. The price was fixed at \$534.25 and \$533.75.

Operations:	Market	-	\$25mn.
	India	+	22
	Interest	+	11
	Iran	+	10
	Ghana	-	9
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		+	\$9mn.
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*JGH* 6th April 1981.

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