

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 9th April 1981

The dollar recovered yesterday's losses in New York overnight as short-term interest rates turned up again and extended its gains this afternoon when conditions on Wall Street remained relatively tight. Sterling attracted sizeable two-way interest this morning and later stood up well to the advancing dollar. The ERI fell from 99.4 to 99.2.

The pound closed nearly two cents cheaper at 2.1925 yesterday in New York where the dollar finished at the day's best levels. This morning the dollar traded steadily a little below closing levels. Sterling opened at 2.1953, touched 2.1912, then began a gradual improvement, following the entry of a Central Bank buyer of some £50mn. The full impact of this order was felt only later when the pound thrust ahead to 2.2007. This price prompted professional profit-taking, however, and the rate collapsed as quickly. This afternoon, in the face of a stronger dollar, the pound did well to maintain a level around 2.19. Late in the day the rate dipped to 2.1873 before ending the day at 2.1893. Three-month Euro-dollars were $\frac{3}{8}\%$ better bid ($15\frac{3}{8}\%$). Sterling's forward premium widened by nearly $\frac{1}{2}\%$ to $3\frac{1}{2}\%$ p.a. and an adverse covered differential of $1/16\%$ reappeared.

The pound was around $\frac{3}{8}\%$ firmer on the Continent of Europe, fetching 4.69 $\frac{1}{2}$ deutschemarks, 11.09 $\frac{1}{2}$ French francs and 4.28 $\frac{1}{2}$ Swiss francs. The respective dollar rates for these currencies were 2.1460, 5.0665 and 1.9555 - all over $1\frac{1}{2}\%$ better for the dollar. EMS finished 2 $3/16\%$ spread between the deutschemark and Belgian franc (35.17), the latter weakening to 84 on the index of divergence, though requiring no support. The French sold \$20mn. of deutschemarks. The Swedes took in a further \$65mn. The yen lost $\frac{1}{2}\%$, closing at 214.07.

Gold recovered a little ground this morning - when the price was fixed at \$512 - but met heavy offering in this afternoon's fixing which set a level of \$503. Later the metal traded down through \$500 before closing around that level.

Operations:	Market	-	\$2mn.
	Iran	+	20
	Zimbabwe	+	12
	India	+	11
	Sundries	-	1
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		+	\$4Omn.
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