

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 13th April 1981

An unexpectedly large increase in US money supply took Euro-dollar rates much higher today and made for a much firmer dollar. Sterling was widely sold this morning but recovered to enjoy a comfortable afternoon. The ERI fell from 99.2 to 98.9.

The pound closed at 2.1740 on Friday in New York, where the dollar gained around  $\frac{1}{2}\%$  following publication of the monetary aggregates. This morning the dollar's advance was extended. Sterling opened at 2.1670 and touched 2.1676 on the early exchanges. Widespread selling then ensued, however, and the pound was driven down very quickly to 2.1535. In part this was due to some professional Middle East offering, in part to the Bundesbank's support of the deutschemark (which diverted speculative buyers of dollars to London) and in part to defensive marking down in face of a recent issuer of bulldog bonds in search of an avenue for conversion. As the Bundesbank retreated, so sterling recovered, only to fall again to 2.1515. Thereafter, the market was much less active. A genuine recovery set in and the pound traded either side of 2.16 through the afternoon, closing at 2.1606. Three-month Euro-dollars gained a net 13/16% to 16 11/16%. The forward premium widened to  $4\frac{1}{2}\%$  p.a. and, with sterling deposits a little firmer, the covered differential was  $\frac{1}{8}\%$  in London's favour.

The pound was a fraction firmer on the Continent at 11.09 $\frac{1}{2}$  to the French franc, 4.28 $\frac{1}{2}$  to the Swiss franc and 4.69 $\frac{1}{2}$  to the deutschemark. The dollar closed well below its best but still gained over 1%, at 2.1738 in Germany and 1.9845 in Switzerland. The Bundesbank sold \$146mn. and swapped out \$293mn. EMS widened late in the day to almost 2 $\frac{1}{2}\%$ , the Belgians selling \$16mn.-worth of deutschemarks to protect their franc which eased to 95 on the adjusted index of divergence. The French, too, sold \$12mn. of deutschemarks and the Irish spent \$42mn. The yen lost a further  $\frac{1}{8}\%$  to 216.82 despite a much improved trade surplus in March.

Gold remained abysmally weak as the prospect of higher US interest rates put pressure on all metals. Fixings were \$475.50 and \$473.75 and \$470 was traded later in the day.

Operations:	Market	+	\$2mn.
	IMF (use of sterling)	+	45
	India	+	22
	IDA	+	15
	Crown Agents	+	8
	Sundries	+	2
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		+	\$94mn.
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*JGH* 13th April 1981.

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