

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 22nd April 1981

Much the same pattern as yesterday was woven by today's exchange markets. Sterling loomed stronger whilst the dollar threaded its way downwards. The French franc weakened against the tapestry of the forthcoming Presidential election. The ERI for the pound rose to 99.7.

The dollar's softer appearance began in New York last night when the Fed supplied their money market with reserves through repurchase agreements: sterling touched 2.18 and closed at 2.1760. This morning it opened at 2.1670 and rose fairly steadily, initially on net demand from the Far East but later on renewed buying by the IMM and a commercial operator. The closing level was 2.18 (after 2.1817) in London but then in New York 2.19 was breached. Euro-dollars moved down again, the three-months' quotation closing at 16½%. With the forward discount for the dollar declining to 3½% p.a. the covered comparison was at parity tonight.

In dollar terms sterling gained nearly 1% today; against the deutschemark it rose over ¼% to 4.73½ compared to ¼% in France (11.20½) and ¼% in Switzerland (4.30½). The dollar fell to 2.17 against the deutschemark, about ¼% lower than last night. EMS remained 1 15/16% wide with the Belgian franc improving to 35.47. As the French franc pulled back from the deutschemark (it moved today from ¼% to ½% below, in rate terms improving from 5.1645 to 5.1407), the Bank of France sold \$28mn. and deutschemarks' equivalent to another \$408mn. The Germans confined their activity to a further round of swapping, reducing domestic liquidity by DM 3.2bn. for one week. The Dutch sold \$35mn., the Irish \$10mn. The Swiss franc strengthened to 1.9757; the yen was slightly better at 217.46.

Gold took heart from the decline in US interest rates. In a thin market this morning it fixed at \$492; the price increased as American markets opened and with turnover improving the second fixing was \$501.

Operations:	Market	+	\$9mn.
	India	+	22
	Iran	+	15
	Government	-	5
	Sundries	-	5
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		+	\$36mn.
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