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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 29th April 1981

A surprisingly large reduction in the US trade deficit and the continuing firmness of Federal Funds combined to propel the dollar to new recent high levels today. Sterling was an active market at times and held up well to the dollar's advance, the ERI rising from 98.7 to 98.9.

The dollar advanced on a broad front in New York yesterday and the pound dropped to 2.1437 before closing at 2.1460. This morning it began at 2.1487 and maintained this level (touching 2.1490) on the early exchanges as the market probed the Bundesbank to test the strength of their resolve. Eventually the dollar forged ahead and sterling retreated in line with other currencies, falling to 2.1380 before establishing a level a little over 2.14. Professional sellers of pounds were in evidence at this juncture. This afternoon, however, sterling was a good two-way market. Professional short-covering and strong Swiss investment demand countered another upward surge by the dollar, with American sellers of pounds, and the rate was sustained above 2.14 until the close at 2.1455. Three-month Euro-dollars gained  $\frac{3}{8}\%$  to 16  $\frac{9}{16}\%$ . The forward premium widened to 4  $\frac{1}{2}\%$  p.a. and interest parity prevailed.

The pound strengthened by  $\frac{3}{8}\%$  against the deutschemark (4.73  $\frac{1}{2}$ ),  $\frac{3}{8}\%$  against the French franc (11.23  $\frac{3}{4}$ ) and  $\frac{3}{8}\%$  against the Swiss franc (4.32  $\frac{3}{4}$ ). Against the dollar, the deutschemark eased to 2.2070 (after 2.2127) and the Swiss franc weakened to 2.0140 (after 2.0175). During the day the dollar set an all-time high against the lira (1099.60) and its highest level against the French franc (5.2437) since the Smithsonian realignment nearly ten years ago. The guilder, too, found its lowest point (2.4595) for 3  $\frac{1}{2}$  years. The punt (1.6540) replaced the Belgian franc (35.92) at the foot of EMS, 1  $\frac{9}{16}\%$  adrift of the deutschemark. The Irish sold \$24mn., the Germans \$43mn. and the Danes \$47mn. The Dutch spent \$120mn. and \$5mn.-worth of deutschemarks. The French shelled out \$171mn. and \$27mn. of deutschemarks. The Italians, however, took in \$20mn. Amid all this turmoil, the Belgians were able to reduce Discount and Lombard rates each by 1% to 14% and 16% respectively. With Tokyo closed for the Emperor's birthday, the yen eased to 214.42.

In a fairly active market gold retreated before the stronger dollar, albeit at no great pace. Fixings were \$478.50 and \$477.25.

Operations:	BIS	+	\$11mn.
	Interest	+	5
	Ghana	-	7
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		+	\$9mn. (of which -\$5mn. for April)

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29th April 1981.

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