

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 1st May 1981

May Day kept most of Europe idle and made a quiet session for those remaining. Sterling met local, commercial demand this morning but failed to keep pace with other currencies this afternoon, when the dollar eased as interest rates declined. The ERI slipped back to 98.8.

The pound closed lower at 2.1355 yesterday in New York where the dollar regained the day's better levels as Federal Funds traded above 20% for the second successive day. This morning sterling began at 2.1352, touched 2.1345, then moved ahead on one or two commercial buying orders, advancing to 2.1447 before settling around 2.14. This afternoon the dollar retreated, the movement gaining pace as Federal Funds retraced their course down through 20%. Sterling, however, receded to 2.1372 before closing at 2.1425. Eurodollars were firmer by $\frac{3}{8}\%$ - $1\frac{1}{8}\%$, the three months' closing $\frac{3}{8}\%$ harder at 17 $\frac{9}{16}\%$. Sterling's forward premium widened to 5 $\frac{1}{16}\%$ leaving a small covered differential against London.

The pound lost $\frac{1}{8}\%$ to the deutschemark (4.72 $\frac{1}{2}\%$) but was only a touch easier against the Swiss (4.31 $\frac{1}{2}\%$) and French (11.22 $\frac{1}{2}\%$) francs. Most Continental currencies were little changed on the dollar, but the French franc eased to 5.2407 (after a new 10-year low of 5.2687). The French were active sellers of dollars through external agents. EMS widened to 1 $\frac{1}{2}\%$ between the deutschemark (2.2045) and Irish punt (1.6532) The Danes, Irish and Dutch each sold a few dollars. The yen finished at 215.77.

Gold gained ground throughout the day with fixings at \$484.75 and \$487.50. Developments in Syria and the Lebanon were supportive.

Operations: Interest + \$28 mn.

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