

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 5th May 1981

The dollar posted gains of around 3% against Continental currencies in the two days since Friday following substantial increments to the US monetary aggregates and yesterday's increase of 1% in the Federal Reserve Discount Rate (to a record 14%) and in the penal surcharge (to 4%). In New York yesterday sterling hit a two-year low against the dollar but made substantial advances against the European currencies over the period. As a result, the ERI rose from 98.8 to 99.0.

The pound closed a cent cheaper in New York on Friday at 2.1330. On Monday it was traded back to close at 2.0970, the lowest level since June 1979. Despite the Bank Holiday, commercial buyers of sterling were in evidence both in Europe and the United States and this morning, too, they were visible from an early hour. The pound opened at 2.1030, notwithstanding that the dollar was again sharply firmer, and fell no lower than 2.1007 before advancing strongly under the impact of the commercial demand. A large Swiss buyer, presumably on a customer account, swelled the ranks and the pound was swept up to 2.1167. This movement, combined with some forceful intervention by the Bundesbank, stopped the dollar in its tracks - even though Euro-dollar deposits were still moving higher - and sterling quickly established a range around 2.1125 which prevailed for the rest of the day. The afternoon was rather quieter. New York did little to disturb the calm until late in the day when the dollar hardened again and sterling came back to close at 2.1095. Three-month Euro-dollars were nearly 2% better bid at 20% (after 20 5/16%). Sterling's forward premium widened to 6 13/16% p.a. and opened up an adverse covered differential of 1/4%.

Over the two days since Friday the pound gained 1 1/2% against the Swiss franc (4.36%), 1 1/4% against the deutschemark (4.78%) and 1 1/2% against the French franc (11.41%). Against the dollar these currencies closed respectively at 2.0712, 2.2695 and 5.4130. This morning, the German (2.2750) and Swiss (2.0742) currencies touched their lowest level for 3 1/2 years, the Belgian (37.06) and Dutch (2.5240) their weakest for over 4 years and the French (5.4150) and Swedish (4.8790) their worst since the Smithsonian realignment. The lira found another all-time low (1130 1/2) and the French franc closed at a worst-ever (2.3850) against the deutschemark. The French sold \$52mn. on Friday through external agents; on Monday they spent \$225mn. and \$21mn. -worth of deutschemarks, while today they lost \$70mn. The Bundesbank shelled out \$97mn. yesterday and \$216mn. today, the Italians \$40mn. on either day. The Dutch, Danes and Irish between them spent \$50mn. EMS narrowed to 1 9/16% between the deutschemark and Belgian franc (36.97). With Tokyo closed both yesterday and today, the yen held up better than most, easing only to 218.05.

Having recovered to \$490 in New York on Friday, gold was sharply lower today. Nevertheless modest support was evident around \$475. Fixings were \$476.75 and \$476.25.

Operations:	Market	+	\$3mn.
	Interest	+	15
	Iran	+	13
	Sundries	+	<u>2</u>
		+	\$33mn.

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