

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 6th May 1981

The exchanges were somewhat less active today although there was again a fair degree of volatility in rates and no definite trend developed. The dollar finished a touch easier, as interest rates came off yesterday's highs. Sterling lost ground on the Continent, however, and the ERI dropped to 98.9. The first estimate of EM3 had little impact.

The pound closed at 2.1185 in New York yesterday, gaining strength when Yamani denied having called for a reduction in the price of oil. The dollar was generally around $\frac{1}{2}$ % easier as Federal Funds traded lower. This morning sterling opened at 2.1180 and advanced to 2.1195 on the early exchanges, only to retreat rapidly to 2.1130 as the dollar forged ahead behind rising Euro-dollar rates. The movement was short-lived, however, as ready lenders of dollars appeared from the Middle East and sterling soon reverted to opening levels. This afternoon there was a substantial appreciation in the French franc (which had earlier scored large gains on the deutschemark) Sterling, too, met good demand and the dollar weakened generally in consequence. The rate rose sharply to 2.1271. US Treasury Secretary Regan then predicted further increases in US interest rates and all markets turned tail. The pound declined to close at 2.1170. Three-month Euro-dollars (after technical adjustment) closed $3/16$ % softer at $18 \frac{15}{16}$ %. Sterling's forward premium widened to $6 \frac{15}{16}$ % p.a. and interest parity prevailed.

The pound gave up $\frac{1}{2}$ % in both Germany ($4.77\frac{1}{2}$ %) and Switzerland ($4.35\frac{1}{2}$ %) and a full 1% in France ($11.30\frac{1}{2}$ %). The dollar finished in these countries at 2.2563, 2.0590 and 5.3387 respectively. EMS was again $1 \frac{9}{16}$ % spread between the deutschemark and Belgian franc (36.76). The Italians bought \$46mn. The yen hardened to 216.67.

Gold was a little firmer in New York yesterday and held its gains today. Fixing levels were \$482.75 and \$482.

Operations:	Market	+ \$7mn.
	Iran	+ 5
	Sundries	- 3
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		+ \$9mn.
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6th May 1981.

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