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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th May 1981

A quieter day on the exchanges with rates continuing to follow the uncertain meandering of U.S. interest rates. The dollar was generally firmer, and sterling, as usual in these circumstances, gained on Continental currencies. The ERI finished unchanged at 98.9.

The pound closed at 2.1160 in New York yesterday and began this morning at 2.1137, the dollar opening better behind some hardening in eurodollar deposits. The early exchanges set a range for sterling around 2.11 but modest commercial and foreign demand took the rate up to 2.1141 before a commercial seller restored the earlier range. This afternoon, the dollar advanced when interest rates opened higher in New York. Sterling declined to 2.1028 but, as Federal Funds traded lower, the dollar lost its shine and sterling recovered to close at 2.1092. Three month eurodollars (after technical adjustment) were around $\frac{1}{4}\%$ firmer (at 19 $\frac{3}{4}\%$). Sterling's three-month forward premium widened to 7 $\frac{1}{2}\%$ p.a., leaving an intrinsic discount of 1/16%.

The pound gained $\frac{1}{8}\%$ in Zurich (4.36 $\frac{1}{2}\%$), $\frac{1}{4}\%$ in Frankfurt (4.78 $\frac{1}{2}\%$) and $\frac{1}{8}\%$ in Paris (11.34). The dollar in these centres advanced respectively to 2.0690, 2.2695 and 5.3762. EMS continued 1 9/16% spread between the deutschemark and Belgian franc (36.96). The Belgians sold \$11mn and \$4mn of deutschemarks, while the Bundesbank themselves spent \$7mn. Elsewhere only the Italians operated in significant size, selling \$75mn. The yen weakened to 217.50.

Gold gave up part of yesterday's gain as the dollar strengthened. The price was fixed at \$479.25 and \$477.75.

Operations:	Interest	+ \$11 mn.
	India	+ 11
	Iran	+ 5
	Egypt	+ 5
	Sundries	+ 3
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		+ \$35 mn.

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