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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 8th May 1981

The exchanges were again thin today and the dollar traded erratically, while losing ground overall. Sterling was inactive and, though ground was ceded to the Continental currencies, the ERI closed unchanged at 98.9.

The pound closed at 2.1072 in New York yesterday but opened at 2.1035 this morning when the dollar perked up behind firmer eurodollar deposits. Soon enough, however, deposit rates receded and sterling was marked up to establish a range around 2.11. This afternoon, the dollar lost further ground, though movements were random and no firm trend developed. An encouraging Producer Price Index from Washington (+0.8%) was offset by an unchanged unemployment rate and later by the Federal Reserve draining reserves with Funds at 18½%. Additionally it may be that the successful passage of the President's budget through the House has lent a generally firmer undertone to the dollar. Sterling touched 2.1182 this afternoon before closing at 2.1155. Three month eurodollars closed only a shade firmer at 19 11/16%. Sterling's forward premium was unchanged at 7½% so that, with sterling deposits a little softer, the intrinsic discount rose to 3/16%.

The pound gave up ¼% both in France (11.31½%) and Germany (4.77½%) and was ¾% easier in Switzerland (4.34½%). The dollar in these countries finished at 5.3490, 2.2570 and 2.0550 respectively. EMS widened to 1 11/16% between the Belgian franc (36.81) and deutschemark. The Belgians sold a ragbag worth \$18mn., the Dutch spent \$3mn. and \$16mn.-worth of deutschemarks and the French lost \$30mn. The Japanese, unusually, sold \$10mn. in Tokyo where the yen eased to 218.60. In London it closed at 217.60.

After a steady morning, in which the price was fixed at \$481.75, gold reflected silver's glint this afternoon and traded up to fix at \$485.75. Later the rally was extended and the metal closed at \$490.50.

Operations:	Market	+ \$7mn.
	Interest	+ 8
	Sundries	+ 6
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		+ \$21mn.
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	Overnight	+ \$7mn.
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