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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 12th May 1981

A renewed upturn in U.S. interest rates - spurred by widespread fears of a large increment to the American monetary aggregates this week - combined with a continuing haemorrhage from Paris to make for an active and uncomfortable day in many European centres. Massive intervention was required to keep the French franc within EMS. Sterling was quiet for the most part, although heavy selling was encountered from Switzerland this morning. The ERI gave up yesterday's gain, closing at 98.9.

The dollar was substantially firmer in New York yesterday and sterling retreated progressively to close at 2.0892. In the Far East this morning it touched 2.0825 - the lowest level since June 1979 - but, after profit-taking in the dollar, the pound began in London at 2.1010. The early exchanges saw two-way sparring, with the dollar moving this way and that before suddenly leaping ahead. Sterling, however, having touched 2.1015, was actively sold by a Swiss professional - probably on customer account - and backed off quickly to 2.0915. The tide was turned in Europe where the combined weight of official intervention stopped the dollar in its tracks. The pound recovered to trade around 2.0950 for the rest of the day, closing eventually at 2.0925. Three-month eurodollars recovered yesterday's losses; the forward premium widened to 7 5/16% p.a. and the intrinsic discount fell to 1/8%.

The pound shed 1/8% in Paris (11.55 1/8) and Frankfurt (4.79 1/8) and 1/8% in Zurich (4.33 1/8). The dollar gained around 1/8% to 5.52, 2.2910 and 2.0720 respectively in these centres. EMS closed fully-stretched between the deutschemark and French franc but the main feature was the Swiss franc/deutschemark cross-rate which fell from S.F. 0.90 1/2 to 0.90 1/8 before the deutschemark recovered under the force of official intervention to close at 0.90 7/16. This clearly reflected the flow of funds from France into Geneva, the volume of which was further demonstrated by Central Bank support. The Bank of France sold deutschemarks worth \$627mn., their franc finishing at 84 on the index of divergence. The Bundesbank bought \$180mn.-worth of French francs, while selling \$350mn. to support their own currency. The Italians, too, sold \$33mn. and the Dutch spent \$45mn. and \$4mn.-worth of deutschemarks. Even the Swiss sold \$50mn. this morning to stem the dollar's strength regardless of the relative strength of their own unit. The yen eased to 218.40 in Tokyo. It was suggested that the currency was the recipient of some of the French outflow, but in the absence of Central Bank support, it weakened further in Europe to 219.30. For the record, the deutschemark (2.2980), florin (2.5480), French franc (5.5345), Belgian franc (37.46) and Swedish krona (4.8888) all set new, recent benchmark levels against the dollar while the lira (1140.55) again plumbed hitherto unseen depths.

Gold continued yesterday's retreat in very active, two-way conditions. Fixings were \$487 and \$484 and the close around \$480.

Operations:	Market	+ \$2mn.
	Iran	+ 5
	Ghana	- 13
	Bangladesh	- 11
		<u>- \$17mn.</u>

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