

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 14th May 1981

With short-term U.S. interest rates remaining extremely firm, the dollar set new high levels across the board today. Pressure on the French franc, however - and on EMS generally - was much abated, as the weight of recent official intervention forced the market to pause for breath. Sterling again reflected the dollar's gyrations and attracted only modest activity. The ERI fell to 98.4. The publication of the monetary aggregates had little impact.

The pound closed at 2.0740 yesterday in New York, where the dollar advanced to new record prices as Federal funds, albeit on make-up day, traded at times well in excess of 20%. This morning eurodollars opened firmer and the dollar began on a strong note. Sterling started at 2.0722, touched 2.0740, then retreated rapidly to 2.0630, its lowest level against the dollar for eighteen months. Modest, two-way commercial business was in evidence. The dollar's rally quickly ran out of steam, however, as the market seemed glutted by recent official outpourings. The pound recovered to spend the rest of the morning around 2.0675. New York returned to bid for dollars, as Federal funds opened very tight again. Sterling touched 2.0630 once more. Conditions soon eased, however, and the pound rose to around 2.07 before closing at 2.0695. Three-month eurodollars were almost  $\frac{1}{2}\%$  harder (after technical adjustment) at  $20\frac{1}{2}\%$ . Sterling's forward premium, however, widened substantially to  $7\frac{3}{4}\%$  p.a. and the intrinsic discount fell to  $1/16\%$ .

The pound was a touch softer in France (11.48%) and Switzerland (4.31%), a little firmer in Germany (4.77%). The dollar gained around  $\frac{3}{4}\%$  in these centres at 5.5512, 2.0830 and 2.3090 respectively. The Bundesbank sold \$100mn. in New York yesterday but did not intervene in the dollar today. EMS was well stretched this morning but the Bank of France sold deutschemarks worth \$98mn. and the Bundesbank bought \$34mn. worth of French francs, and the band relaxed to close at 2%. Nonetheless the French franc finished at 84 on the index of divergence. The Dutch, too, sold \$10mn. and a few deutschemarks. Elsewhere, the Swedes took in \$61mn. but the Japanese spent \$15mn. in Tokyo where the yen closed at 221.80. In London it eased further to 223.55 - its lowest level for nine months - before closing at 222.10. For the record, the deutschemark (2.3147) and Swiss franc (2.0927) saw their lowest levels for  $3\frac{1}{2}$  years, the Belgian franc (37.75) and Dutch florin (2.5730) their lowest for  $4\frac{1}{2}$  years; the Swedish krona (4.9185) was at its weakest for nearly ten years while the French franc (5.5732) last passed this way in December 1969. The lira (1150 $\frac{1}{2}$ ), as usual, found a new nadir.

Gold lost ground in New York yesterday and tried to recover this morning as some short-covering was seen. Having fixed at \$480.75, however, the rally petered out and the later session set a level of \$476.50.

Operations:	Market	+	\$10mn.
	Sundries	+	3
		+	<u>\$13mn.</u>

*Jm* 14th May 1981

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