

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 15th May 1981

The dollar tended easier this morning as some positions were squared in advance of the forthcoming U.S. money supply statistics. Later, however, with Federal funds still very firm, mounting fears of a weekend realignment in EMS brought heavy selling of French francs and the dollar rebounded to within sight of yesterday's peaks. Sterlings' ERI rose to 98.7.

The pound closed at 2.0765 yesterday in New York where the dollar softened somewhat as Federal funds moved progressively easier. This morning, with eurodollars following the same trend, the dollar continued easier. Sterling opened at 2.0725 and advanced in fits and starts to 2.0825 this afternoon before closing at 2.0785. Good, two-way business was in evidence early this morning and early New Yorkers bought pounds this afternoon; otherwise, however, sterling remained off centre-stage. After the close pressure on the French franc cast a pall on all European currencies and sterling was marked down to 2.0715. Three-month eurodollars finished $\frac{1}{8}\%$ easier at 19 $\frac{3}{8}\%$. Sterling's forward premium narrowed by as much to 7 $\frac{1}{2}\%$ and the intrinsic discount was unchanged at 1/16%.

The pound lost $\frac{3}{8}\%$ to the Swiss franc (4.29 $\frac{1}{2}$) but gained $\frac{1}{8}\%$ on the deutschemark (4.78 $\frac{3}{8}$) and $\frac{1}{2}\%$ on the French franc (11.54 $\frac{3}{8}$). The dollar closed easier at 2.0650 in Switzerland and 2.3030 in Germany. The Swiss franc thus appreciated to 0.89 11/16 against the deutschemark and the Swiss swapped in \$200mn. to ease liquidity pressures. EMS was more than fully-stretched by Europe's close, with the French franc now at 86 on the index of divergence. Pressure built up relatively late in the day but still required official German purchases of \$66mn.-worth of French francs and sales by the Bank of France of deutschemarks worth \$442mn. After the close, in a short, sharp panic burst, the French franc was traded down to 5.60. The Italians, too, sold \$50mn., the Irish \$10mn. and the Dutch \$5mn. and \$11mn.-worth of deutschemarks. The yen was little changed at 222.70.

Gold was brighter in New York yesterday and held its gains today in quiet conditions. Fixings were \$482.50 and \$485.

Operations:	Market	+	\$6mn.
	Interest	+	7
	Iran	-	10
	Sundries	-	6
		-	<u>\$3mn.</u>

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