

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 18th May 1981

Considerable uncertainty over the prospects for U.S. interest rates drove the dollar to and fro on the exchanges today. An easier underlying tendency was countered by renewed weakness in the French franc and the dollar finished little changed against EMS currencies. The pound, yen and Swiss franc, however, were insulated from the European mainstream and all improved. Sterling's ERI rose from 98.7 to 99.2.

The pound closed at 2.0740 in New York on Friday. This morning the market opened in some confusion. Eurodollars were around $\frac{3}{8}$ % easier, following a report that the Federal Reserve had released substantial downward revisions to M1B, and the dollar opened softer. Sterling began at 2.0907 and danced thereafter to the dollar's tune, falling to 2.0860 on the early exchanges but improving to around 2.0950 by lunchtime. A large commercial buying order took the pound up to 2.1005 but, as the dollar strengthened again (buoyed by Morgan Guaranty's Prime Rate increase to 20%), sterling relapsed to close at 2.0945. Later in New York it was quoted down to 2.0885. Three-month eurodollars finished $\frac{3}{8}$ % easier at 18 $\frac{1}{4}$ % p.a. Sterling's forward premium narrowed in compensation to 6 $\frac{1}{2}$ % p.a., leaving an intrinsic discount of $\frac{1}{8}$ %.

The pound was barely changed in Switzerland (4.29 $\frac{1}{2}$) but gained $\frac{1}{8}$ % in France (11.57 $\frac{1}{4}$) and $\frac{1}{2}$ % in Germany (4.81 $\frac{1}{4}$). The dollar finished a little softer in these countries at 2.0492, 5.5250 and 2.2975 respectively but soon after in New York it had regained Friday's closing levels. EMS was fully-stretched for most of the day but, by the close, the weight of French intervention had narrowed the distance to 2%. They sold deutschemarks worth \$327mn. while the Bundesbank bought French francs worth \$46mn. The Germans also sold \$26mn. and took DM 2.1bn. out of the domestic system by swapping on dollars. The French franc closed at 84 on the index of divergence. The Belgians took in \$46mn. and, elsewhere, the Swedes bought \$55mn. The yen firmed to 221.60.

Gold was quiet and steady. Both fixings set a level of \$481.75.

Operations:	Market	+ \$25mn.
	Electricity Council	- 100
	(PSB G'teed)	
	New Zealand	- 100
	Interest	+ 7
	Sundries	+ 4
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		- \$164mn.

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