

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 19th May 1981

After opening easier, in line with a softer trend in interest rates, the dollar was bucked by a substantial upward revision to first quarter U.S. G.N.P. statistics (including the deflator) and finished the day on a very strong note. Sterling was not active but lost ground in all centres and the ERI fell from 99.2 to 98.9.

The pound closed at 2.0915 in New York yesterday and opened at 2.0953 this morning, with the dollar generally easier behind declining eurodollar rates. An early buyer of pounds took the rate to 2.0970 but a clutch of small sellers carried it back to 2.0907, whereafter it settled quietly around 2.0925 until the afternoon. From the outset, New York was looking for higher interest rates and a firmer dollar. Sterling dipped gently to 2.0855 before closing at 2.0879. Later, however, following release of the G.N.P. statistics in the U.S.A., the pound was traded down below 2.08. Three-month eurodollars regained their intra-day losses but closed $\frac{1}{2}\%$ lower than yesterday at 19% (after technical adjustment). Sterling's forward premium narrowed a touch to $6\frac{7}{16}\%$ p.a. and this left the covered differential at $1/16\%$ in London's favour.

The pound lost $\frac{1}{2}\%$ in Germany (4.80 $\frac{1}{2}$) and $\frac{3}{8}\%$ in Switzerland (4.26 $\frac{1}{2}$) but was little changed in France (11.57). The dollar improved in these countries to 2.3002 (later 2.31), 2.0430 (later 2.0567) and 5.5412 (later 5.5615) respectively. The Swiss franc firmed to 0.88 $13/16$ against the deutschemark as the former continued to benefit from the outflow from France while the latter was weighed down by the volume of EMS intervention. EMS closed all but fully-stretched with the French franc at 85 on the index of divergence. The French sold deutschemarks worth \$230mn. while the Bundesbank took in French francs worth \$44mn. and sold \$35mn. The Italians sold \$132mn. but the Belgians bought \$50mn. The Dutch sold \$7mn. and \$7mn. of deutschemarks. Elsewhere the Swedes gained \$15mn. and the yen firmed to 220.60.

Gold was again quiet and steady, with fixings at \$483.25 and \$481.50. Later the price fell to \$478.50 following the dollar's recovery.

Operations:	B.I.S.	+	\$11mn.
	India	+	11
	Sundries	-	4
		+	<u>\$18mn.</u>

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