

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 20th May 1981

With U.S. interest rates edging firmer following yesterday's surprising G.N.P. statistics, the dollar surpassed its recent highs in New York. This drew phenomenal and aggressive support for the deutschemark by the Bundesbank today, with nearly \$1bn. of official dollars offered by European Central Banks in total. The French franc, too, required very heavy buttressing in EMS and rumours were rife of imminent packages in France and Germany. Sterling, though modestly traded, lost ground on a broad front and the ERI fell from 98.9 to 98.5.

The pound closed sharply lower at 2.0710 yesterday in New York where the dollar closed at its highest levels. This morning the Bundesbank were operating from first light, overtly offering the dollar in great size. Sterling opened at 2.0755, touched 2.0740, then hovered around the opening level through the early exchanges. Such was the groundswell in the dollar's favour that it was some long time before the Bundesbank turned the tide. Sterling then advanced steadily to 2.0960 in early afternoon. Money opened tight in New York again and the dollar began to bounce back. Sterling ran with the pack until late in the day when some long positions were hastily squared and the pound dropped sharply to close at 2.0805. Three-month eurodollars were $\frac{3}{8}$ % firmer (after technical adjustment) at 18 7/16%. Sterling's forward premium widened as much to 6 13/16% p.a. and the intrinsic premium rose to $\frac{1}{8}$ %.

The pound shed $\frac{1}{8}$ % in Zurich (4.25 $\frac{3}{8}$) and $\frac{1}{2}$ % in each of Paris (11.51 $\frac{3}{8}$) and Frankfurt (4.77 $\frac{3}{8}$). The dollar was little changed in Switzerland (2.0447) but somewhat easier on balance in France (5.5340) and Germany (2.2960). This modest achievement cost the Bundesbank \$756mn. with supporting sales from Italy (\$90mn.), the Netherlands (\$90mn.), France (\$30mn.), Ireland (\$22mn.), Switzerland (\$10mn.) and Belgium (\$4mn.). Meanwhile, the French franc took another terrible battering on the European front. \$538mn.-worth of deutschemarks were shelled out by the Bank of France while the Bundesbank took in French francs worth \$180mn. The Dutch, too, fired off \$26mn.-worth of deutschemarks. The French franc improved to 82 on the index of divergence. Elsewhere the Swedes took in \$36mn. The yen was a touch easier at 220.82.

Gold was featureless and remained depressed by the cost of carry. Fixings were \$478.25 and \$479.75.

Operations: Sundries + \$2mn.

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