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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 22nd May 1981

The French exchange control measures took the heat off their franc this morning but by this afternoon, fears of a weekend re-alignment in EMS brought a resumption of pressure. Meanwhile, the dollar traded up to new highs this afternoon as money in New York remained tight but retreated from its best levels as conditions later eased. Sterling looked vulnerable at one point but was rescued by a large, commercial buyer. The ERI rose slightly to 98.8.

The pound closed at 2.0790 in New York yesterday and opened at 2.0740 this morning as the dollar began strongly behind firmer Euro-dollars. These soon eased, however, and with the French measures appearing to bite, the dollar went into reverse and sterling advanced to 2.0830. By mid-morning, however, the dollar had turned ahead again and sterling drifted back to 2.07 by late morning. Early this afternoon as the dollar firmed further, the pound came under pressure and persistent, small selling from New York drove the rate to 2.0572, its lowest level for 18 months. A sizeable buyer then appeared and, with the dollar once more in reverse, sterling recovered in comfort to close at 2.0745. Three-month Euro-dollars finished a shade firmer at 19 9/16%. With the forward premium unchanged at 7 1/16% p.a., an adverse covered differential of 1/16% was opened up.

The pound ended the day a little easier against the Swiss franc (4.28½), French franc (11.56½) and deutschemark (4.79½). The dollar, too, was lower against each of these currencies at 2.0650, 5.5750 and 2.3125 respectively. The latter two were fully 2½% apart in EMS at the close, the French selling deutschemarks worth \$246mn. and the Germans buying French francs worth \$58mn. Yesterday the Bundesbank sold \$100mn. in New York. Today they sold \$125mn. The Irish, too, sold \$27mn. but the Belgians took in \$15mn. The yen was little changed at 222.30. For the record, the deutschemark hit another four-year low (2.3275), the Belgian franc (37.88) and Dutch florin (2.5845) new five-year lows, the Swedish krona (4.9395) a new ten-year low and the lira (1151) another all-time worst.

Gold traded below \$470 in New York yesterday, but recovered half of its losses today. Both fixings were at \$472.75.

Operations:	Market	+	\$3mn.
	Sundries	-	<u>1</u>
		+	<u>\$2mn.</u>

Overnight +			
Bank Holiday-			<u>\$10mn.</u>

*Jem* 22nd May 1981.

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