

SECRET

✓

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 26th May 1981

Chancellor Schmidt's package of promises took all the recent pressure off the French franc today but left the deutschemark rather softer. As a result the dollar moved ahead to new high levels in many centres. Sterling was not active and the ERI closed unchanged at 98.8.

The pound closed at 2.0715 in Europe yesterday. Despite a substantial softening in deposit rates, the dollar was well bid yesterday and sterling held up relatively well in the face of some early selling. This morning the pound opened at 2.0670 and mirrored the dollar's fluctuations throughout the session. By mid-day it had traded up to around 2.07 (after 2.0730) and this afternoon it was marked back to 2.0630 before recovering to close at 2.0695. Three-month Euro-dollars were 1% easier than Friday's close. The forward premium did not fully compensate, narrowing to 6 3/16% p.a. so that sterling commanded an intrinsic premium of 1/8%.

Since Friday the pound gained 1/8% against the Swiss franc (4.29 1/8) and 1/2% on the deutschemark (4.82 1/8) but lost 1% to the French franc (11.45 1/2). The dollar improved to 2.0732 in Switzerland and 2.3295 in Germany but eased to 5.5355 against the French franc. Over the two days, the Bundesbank sold \$472mn. and took DM 950mn. out of the domestic system by swapping out dollars. The deutschemark and the punt (1.5657) spanned EMS at the close, 1 11/16% apart, with the Belgian franc not far from the bottom of the band. In all, the Belgians sold \$26mn., the Italians \$211mn., the Irish \$116mn. and the Dutch \$28mn. (partly in deutschemarks). The French, however, recouped deutschemarks worth \$43mn. The yen eased to 224.20 (after a nine-month low of 225.05) and the Bank of Japan sold \$20mn. This afternoon the deutschemark (2.3408) hit a four-year low, the Belgian franc (38.11) and Dutch florin (2.6042) found five-year lows and the Swedish krona (4.9615) a ten-year low. The lira (1158.25) plumbed new depths.

Gold turned even weaker, despite the reduction in the cost of carry. Fixings were \$468.50 and \$466.50.

Operations:	Market	+	\$9mn.
	India	+	10
	Sundries	+	1
			<hr/>
		+	\$20mn.
			<hr/> <hr/>

JGH
26th May 1981.

JGH