

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 28th May 1981

With most major European centres closed for Ascension Day, the morning was quiet but this afternoon a significant downturn in U.S. interest rates sent the dollar into retreat. Sterling met some awkward commercial sellers this morning but recovered some ground this afternoon. Overall the ERI declined to 98.6.

The dollar was sold in New York yesterday as Federal funds, albeit on Wednesday, traded as low as 13% at one stage. Sterling improved to close there at 2.07. This morning there was some correction. Eurodollars opened a touch firmer and the dollar, having recovered half its overnight losses, traded quietly through the morning around opening levels. The pound began at 2.0650 and looked comfortable until mid-morning when a few commercial offerings were brought to a very thin market. Sterling sold off to 2.0587 but was already recovering by midday as the odd dawn raider from New York was even then prepared to take profit in his native currency. The dollar fell sharply through most of the afternoon. Federal funds were easier, though not dramatically so, but U.S. debt markets were generally very bullish. A reduction in Prime Rate by Chase Manhattan from 20½% to 20% fuelled the flames. The pound recovered to 2.0910 before the Federal Reserve turned the tide by draining money from the domestic market. Sterling closed at 2.0680. Three-month eurodollars finished over ½% easier at 18 1/16% but sterling's forward premium narrowed by only ¼% to 5¼% p.a. so that the covered differential rose to 5/16% in London's favour.

The pound lost ¼% to the Swiss franc (4.28¼), ½% to the deutschemark (4.80¼) and ¾% to the French franc (11.37¼). The dollar gave up ¼-1% against these currencies, closing respectively at 2.0722, 2.3250 and 5.4995. The deutschemark and Belgian franc (37.81) contained the EMS, some 1¼% apart. The lira (1159) fell from grace after the Italians brought \$95mn. The yen improved reluctantly to 224.37.

Gold began a little better and was fixed at \$472 this morning. This afternoon the metal was strongly bid following reports of an Israeli air attack on the Lebanon. The later fixing set a level of \$479 and the close was around that same price.

Operations:	Interest	+	\$29mn.
	India	+	10
	Bangladesh	-	10
	Kenya	-	10
	Sundries	+	3
		+	<u>\$22mn.</u>

JGH 28th May 1981.

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