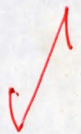


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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 29th May 1981

The end of the month and the absence of most chief dealers at the Forex Congress conspired to make for a quiet session. A slight uptick in Federal Funds left the dollar firmer for choice. The French franc suffered a spasm of weekend weakness. Sterling performed well and the ERI rose from 98.6 to 98.9.

The pound closed at 2.0722 in New York and opened at 2.0707 this morning. Most of the day was spent around 2.0725 but 2.0770 was paid for pounds this morning and 2.0685 was quoted this afternoon before the close came at 2.0705. Two Central Banks were seen buying and selling sterling in some size this afternoon. Otherwise there was little activity. Three-month Euro-dollars lost 5/16%, closing at 17 1/2%. Sterling's forward premium, however, narrowed by 1/2% to 5 3/8% p.a. so that the intrinsic premium fell to 3/8%.

The pound gained around 1/4% in each of Zurich (4.29 3/8) and Frankfurt (4.82 3/8) and put on 1 1/4% against the French franc (11.51 1/2). An oil company was a large seller of French francs for dollars and others no doubt took precautionary short positions before the weekend. The franc closed at 5.56 and fell from second to sixth place in EMS. The deutschemark (2.3295) and Belgian franc (37.96) continued at top and tail of the band, 1 3/8% apart. The Belgians bought \$12mn. and the Irish and Italians \$10mn. apiece. The Swiss franc was little changed at 2.0732. The yen was slightly firmer at 223.97.

Gold traded up to \$483 in Hong Kong this morning but could not hold this level. European and American markets were not active and the fixings set levels of \$478.75 and \$479.25.

Operations:	Market	-	\$6mn.
	India	+	10
	Sundries	+	1
			<hr/>
		+	\$5mn.
			<hr/> <hr/>

The result for May is a fall in reserves of \$1,579mn. to a level of \$26,487mn. after net repayments of Government and public sector debt totalling \$1,857mn. The overbought forward position was reduced by \$517mn. to \$1,505mn.

*JGH*  
29th May 1981.  
JGH