

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 1st June 1981

After opening easier, following the latest declines in the U.S. monetary aggregates, the dollar strengthened progressively through the day, as day-to-day money remained very tight, and by the close it had regained all its lost ground. Sterling again met persistent selling and looked more vulnerable than most other currencies. The ERI fell from 98.9 to 98.3.

The pound closed at 2.0740 in New York on Friday and opened at 2.0775 this morning, touching 2.0802 in the early exchanges as the dollar was marked generally lower. Very soon, however, the dollar turned and sterling was amongst the first to be sold. The pound was a cent cheaper by mid-morning and had fallen to 2.0635 by midday. The Swiss, in particular, were ready sellers and at least one sizeable buying order on commercial account was engulfed in the general flow. Later this afternoon there was another burst of bidding for dollars, as Federal funds in New York tightened to 18 $\frac{1}{2}$ % at one stage. Sterling was sold down to 2.0585 and looked somewhat precarious through to the close at 2.0608. Three-month eurodollars eased by 3/16% to 17 9/16%. Sterling's forward premium narrowed by $\frac{1}{4}$ % to 5 $\frac{1}{4}$ % p.a. and the intrinsic premium declined to 1/16%.

The pound lost $\frac{3}{8}$ % in Switzerland (4.26 $\frac{1}{2}$ %) and Germany (4.79 $\frac{1}{2}$ %) and gave up $\frac{1}{4}$ % in France (11.42 $\frac{1}{2}$ %) where the franc recovered to 5.5437 against the dollar on short-covering. The deutschemark (2.3275) and Swiss franc (2.0705), however, closed only marginally firmer. EMS was 1 $\frac{1}{4}$ % spread between the deutschemark and Belgian franc (37.98). The Italians bought \$45mn. and the Danes sold \$16mn. The yen recovered around 1%, closing at 221.87.

Gold gained ground on the dollar's initial weakness and was fixed at \$481.25 this morning. This afternoon demand for silver in New York brought gold to fix at \$483.25 but best levels were not held in the face of the dollar's recovery and the close was around \$481.

Operations:	Market	-	\$14mn.
	Iran	+	20
	India	+	10
	Sundries	+	3
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		+	\$19mn.
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