

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 4th June 1981

The pound continued under pressure today with large commercial sellers now in the front line. This afternoon some profit-taking brought a better balance. Unlike yesterday, however, much of sterling's apparent decline was owed to the tremendous strength of the dollar. This was enhanced by the lack of any policy changes emanating from the Bundesbank's weekly Council meeting and by the continuing high level of Federal Funds. Sterling's ERI fell from 96.9 to 94.8.

Chicago's chartists sold sterling down through 2.00 in London's twilight hours yesterday and, after a further active period of pressure, the pound came to rest in the United States at 1.99 (after 1.9890). The dollar gained a further $\frac{1}{8}$ against the European currencies. This morning the dollar resumed its upward path but sterling, which had been sold in the Far East, began a cent cheaper in London at 1.9790. After touching 1.9830, the pound met another round of offerings from the European professionals, although this time there were clearly some commercial elements present, too. The rate fell to 1.9670 but quickly recovered, as activity lightened, to 1.9770. Corporate treasurers in London then resumed the charge and sterling fell precipitately to 1.9410, its low for the day, before bouncing back in late morning to 1.9565 and settling around 1.95. This afternoon was less frenetic. Sufficient profit-takers appeared to match any further sellers (including another large American commercial name). Sterling traded up to 1.96 before closing at 1.9520. Later still the dollar made substantial gains in New York and the pound declined to 1.9440 (after 1.9377). Three-month Euro-dollars (18 $\frac{3}{8}$ %) were $\frac{1}{8}$ % firmer. The forward premium narrowed only to 5 $\frac{1}{8}$ % p.a. and the covered differential moved out to $\frac{1}{2}$ % against London.

The pound gave up 1 $\frac{1}{8}$ % in Zurich (4.15 $\frac{1}{8}$ %), 1 $\frac{3}{8}$ % in Frankfurt (4.68 $\frac{1}{8}$ %) and 1 $\frac{1}{8}$ % in Paris (11.03 $\frac{1}{8}$ %). The dollar gained over 1 $\frac{1}{2}$ % in these centres, closing respectively at 2.1290, 2.3987 and 5.6510. Later, however, it soared to new high levels. The Swiss franc (2.1470) was at a 3 $\frac{1}{2}$ -year low, the deutschemark (2.4180) at its worst for over 4 years, the florin (2.68) and Belgian franc (39.20) at 5-year lows and the French franc (5.68) and lira (1192 $\frac{1}{2}$) at their worst ever. In EMS, however, the French franc prospered, joining the deutschemark at the top of the band, with the Belgian franc 1 $\frac{1}{2}$ % distant. The French took the opportunity to recoup \$147mn.-worth of deutschemarks but the Italians sold \$144mn., the Danes \$24mn. and the Irish \$21mn. The yen weakened to 226.20, its lowest level for 9 months.

Gold fell sharply before the advancing dollar. Fixings were \$463.75 and \$462.50 and the metal was traded below \$460 at one stage.

Operations:	Market	-	\$39mn.
	Zambia	-	7
	Sundries	+	5
		-	\$41mn.

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