SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 5th June 1981

In some ways the pound enjoyed a more comfortable end to the week. To be sure, a further 2% was ceded to the dollar and around 1% to the European currencies, while the ERI fell by over 1% to 93.8. However much of the day's apparent weakness was due to further strength in the dollar while a sharp, late decline was caused by a large commercial seller in a thin market ahead of the long Whit weekend on the Continent. Furthermore there were long periods of inactivity when the undertone appeared considerably less nervous.

The pound closed quietly at 1.9540 in New York yesterday but came under attack in the Orient this morning where Indians were prominent among the marauders. In London, with the dollar only marginally firmer, sterling opened a cent easier at 1.9427. The dollar quickly resumed its upward path and sterling was dealt back to 1.9290. Selling, however, was not heavy and, while European currencies remained depressed, the pound then recovered to trade around 1.9350 until late morning when, as a typical pre-prandial Friday gesture, London and Continental dealers turned out their positions. Sterling declined to 1.9250. Much of the afternoon was quiet and comfortable with the pound moving around 1.93. Late in the day an American corporate customer returned to complete a large selling order and in a thin market, sterling fell in a trice from 1.9250 to 1.91 - its lowest for nearly 3 years - before steadying to close at 1.9150. Later, as Federal funds eased back from their recent heady heights and the Federal Reserve failed for once to drain funds from the system, the dollar was marked down in New York and sterling was restored to 1.9275. Three-month eurodollars closed ⅜% firmer at 18 11/16%. The forward premium widened to 5 7/16% p.a. and the intrinsic discount fell to ⅛%.

The pound lost a further ½% in Paris (10.98¼), ⅞% in Frankfurt (4.63¾) and 1¼% in Zurich (4.10⅝). The dollar's course was again dictated by interest rates, with Federal funds trading up to 20½% and one U.S. bank raising prime rate by 1% to 21%. Against that background, an encouraging Producer Price Index (+0.4%) and a significant rise in unemployment to 7.6% were largely ignored. The dollar closed at 2.4222 in Germany and 2.1445 in Switzerland. EMS was 1¾% spread between the deutschemark and Belgian franc (39.54). The French bought deutschemarks worth $27mn., the Dutch sold $45mn. and the Irish $15mn. Elsewhere, the Swedes took in $34mn. and the yen weakened to 228.30. For the record, the deutschemark touched its lowest point (2.4330) for nearly five years, the Swiss franc (2.1530) for 3½ years, the guilder (2.7045) and Belgian franc (39.66) for five years, and the yen (228.70) for over a year. The French franc (5.7450) and lira (1210.25) found new all-time lows.

Gold remained weak but relatively calm. Fixings were $460.25 and $460.

Operations:	Market	-	$89mn.
	Interest	+	11
	India	+	10
	Sundries	-	3
		-	$71mn.

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