

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 10th June 1981

Markets were remarkably calm today. The dollar weakened overnight when the Kuwaiti parliament advocated an Arab oil embargo on the US and some decline in US interest rates today reinforced this trend. Sterling survived an early selling order and traded comfortably thereafter. The ERI rose to 95.0, after 95.3 this morning.

The pound closed at 1.9612 yesterday in New York, where the dollar lost up to 1% following the news from Kuwait. This morning, the dollar began a touch easier still. Sterling opened at 1.9620 and tended to lag the Europeans through the early morning as a large selling order from the Far East was digested. Nonetheless, this was taken comfortably and the pound traded up to 1.97 before settling down around 1.9650. Early this afternoon the dollar tried to recover and the pound was marked back to 1.9575. However, with Federal Funds easier in New York, the dollar went into reverse again and sterling closed at 1.9655. Three-month Euro-dollars were $\frac{1}{2}\%$ softer at $17\frac{1}{2}\%$. Comparable sterling deposits were nearly $\frac{1}{2}\%$ easier at $12\frac{9}{16}\%$ so that the forward premium closed little changed at $4\frac{3}{4}\%$ p.a. and the covered differential was $\frac{1}{2}\%$ against London.

The pound gained $\frac{1}{4}\%$ in Paris ($11.06\frac{1}{2}\%$) but was a touch softer in Frankfurt ($4.65\frac{3}{4}\%$) and Zurich ($4.09\frac{1}{2}\%$). The dollar eased in these centres to 5.6312, 2.3690 and 2.0855 respectively. EMS was extended to over 2% in width between the deutschemark and Belgian franc (38.77). The Irish sold \$20mn. and the Dutch \$33mn. (half of which in deutschemarks) but the Italians took in \$62mn. The yen closed firmer at 225.60.

Gold recovered a little ground as interest rates declined. Fixings were \$463.25 and \$465.25.

Operations: NIL

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