

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 15th June 1981

A sizeable decline in the US monetary aggregates on Friday took the dollar substantially lower today, with losses of up to 2% in some places. Sterling advanced steadily and, as the dollar rate neared 2.00 again, a number of bears in Switzerland and North America, were forced to cover short positions. Sterling's ERI rose from 95.1 to 95.8.

The pound advanced to close at 1.9612 on Friday in New York where the dollar closed easier following publication of the monetary aggregates. This morning the dollar began a further $\frac{1}{2}\%$ - $\frac{3}{4}\%$ softer. Sterling opened at 1.9757 and quickly traded up to 1.9842 before professionals took quick profits in the dollar and most rates were consolidated around the opening levels. After falling to 1.9746, however, the pound began another steady advance and had crested 1.98 again by late morning. Early New Yorkers sold dollars and sterling settled around 1.9850 for the afternoon. At this level the speculative sellers of the week before last were increasingly exposed and short-covering soon developed, especially from the United States, where Chemical Bank reduced its Prime Rate by 1% to 19%. The pound closed at 1.9940 but later, as the dollar weakened further, it traded on in New York up to 2.0075. Three-month Euro-dollars closed $\frac{3}{8}\%$ softer at 17 $\frac{5}{16}\%$ Comparable sterling deposits were $\frac{3}{16}\%$ easier. The forward premium narrowed by $\frac{3}{8}\%$ to $4\frac{1}{2}\%$ p.a. so that the covered differential declined to $\frac{1}{16}\%$ in London's favour.

Sterling lost a further $\frac{3}{8}\%$ to the Swiss franc (4.08 $\frac{1}{2}$) but again gained $\frac{1}{8}\%$ on the deutschemark (4.70 $\frac{1}{2}$) and $\frac{3}{8}\%$ on the French franc (11.25 $\frac{1}{2}$). The dollar lost $1\frac{1}{2}\%$ in Germany (2.3580 and later 2.3360) and $2\frac{1}{2}\%$ in Switzerland (2.0477 and later 2.0340). The French franc (5.6435) continued weak but received no official support. EMS finished a little less than 2% spread between the deutschemark and Belgian franc (38.56). The yen closed some $1\frac{1}{2}\%$ better at 220.65 (later 220.05).

Gold suffered profit-taking in New York on Friday but was bid up again in the Far East this morning as the dollar eased. The earlier fixing set a level of \$472.25. This afternoon, however, the advance was halted, perhaps on news reports that the US Congress was close to authorising significant sales of stockpiled silver. The later fixing was \$471.75 and the close around \$470.

Operations :	Market	+	\$12mn.
	Interest	+	7
	Iran	+	5
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		+	\$24mn.
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