

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th June 1981

With parts of the Continent, including Germany, closed for the Corpus Christi holiday, the exchanges were relatively thin this morning. Nonetheless the dollar gained considerable ground behind an extremely tight money market both yesterday and today. Sterling was comfortable until mid-day when dawn raiders from New York came in to sell. The pound never fully recovered from this attack and the ERI closed at 95.2, compared with 95.6 yesterday.

The Chicago IMM bid sterling up to 2.0015 yesterday but, with make-up day money trading up to 30% in New York, the dollar strengthened considerably and sterling closed there at 1.9952. This morning, the pound opened at 1.9850 - the dollar starting yet firmer with Euro-dollars around $\frac{1}{2}\%$ better bid - and, having touched 1.9877, settled back to trade comfortably around the opening level through a quiet morning. Around mid-day the early patrol in New York sold pounds, inciting other commercial sellers thereby and, with the dollar otherwise little changed, sterling shed a cent. Money opened tight again in New York and was soon trading over 20%. The dollar gained further ground and sterling fell to 1.9720 before recovering to close at 1.9755. Federal Funds had traded at 23% by London's close. Three-month Euro-dollars closed $\frac{3}{8}\%$ firmer on the day at 18%. Sterling's forward premium widened only to $5\frac{1}{2}\%$ p.a. so that the intrinsic premium fell to 1/16%.

The pound lost $\frac{1}{8}\%$ to the deutschemark (4.67 $\frac{1}{2}\%$), was little changed on the Swiss franc (4.08 $\frac{1}{2}\%$) and gained $\frac{1}{2}\%$ on the French franc (11.17 $\frac{1}{2}\%$), which fell from 2.37 $\frac{1}{2}$ to 2.38 $\frac{1}{2}$ against the deutschemark. The dollar improved to 2.3687, 2.0682 and 5.6575 respectively against these currencies. EMS widened to nearly 2% between the deutschemark and Belgian franc (38.74), with the French franc reverting to the penultimate slot. The Italians, though second in the system, sold \$154mn. The yen eased to 222.30.

Gold remained very weak before the soaring cost of carry but attracted sufficient support to prevent any substantial fall below \$460. Fixings were \$460.75 and \$459.

Operations:	Market	-	\$6mn.
	Post Office		
	(PSB G'teed)	-	40
	Crown Agents	+	11
	India	+	10
	Interest	+	6
	Sundries	+	1
			<hr/>
		-	\$18mn.
			<hr/>

Jem 18th June 1981.

JGH