

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 22nd June 1981

Following further encouraging monetary statistics and some easing in Federal Funds on Friday, Euro-dollars and the dollar opened substantially easier this morning. Later, however, there was some recovery, and the movement was reinforced when money resumed fairly tight again in New York. Sterling performed better than most currencies in generally quiet markets and the ERI rose from 95.1 to 95.7. The French franc showed no reaction to the latest election results.

The pound closed nearly two cents better at 1.9820 on Friday in New York, where the dollar was marked down across the board. This morning, sterling began at 1.9870 and touched 1.9940 on the early exchanges as the dollar yielded further ground. Soon enough, however, Euro-dollar deposit rates moved firmer and the dollar turned better. Sterling was marked back progressively to 1.9795 in mid-afternoon, when the dollar peaked for the day, before moving back up to 1.9845 at the close. Sterling's three-month forward premium narrowed to 5 11/16% p.a. Three-month Euro-dollars closed a net 9/16% easier at 18 1/4%. Comparable sterling deposits were a fraction softer and the covered differential was 1/16% in London's favour.

The pound was a touch firmer in Switzerland (4.07 1/2%) and 3/8% better in both France (11.21 1/4%) and Germany (4.70 1/4%). The dollar eased in these countries to 2.0555, 5.65 and 2.3695 respectively. Citibank and Chemical raised Prime Rates to 20%. EMS was 2 1/2% in width between the deutschemark and Belgian franc (38.80). The Belgians sold \$25mn. and the Irish \$23mn. Elsewhere the Norwegians sold \$11mn. and the Swedes took in \$49mn. The yen firmed to 222.60.

Gold recovered a little in the East this morning but any further progress was retarded by the renewed strength of the dollar. Both fixings set a level of \$462. Later an Iraqi call for an oil embargo of the United States carried the metal to \$465 at London's close.

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|-------------|----------|---|-------------|
| Operations: | Market | + | \$18mn. |
| | Sundries | - | 1 |
| | | | <hr/> |
| | | + | \$17mn. |
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JGH 22nd June 1981.

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