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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 23rd June 1981

With the trend in Federal Funds decidedly easier, the dollar was once more marked down on the exchanges. As often, however, the movement occurred in New York (yesterday) and the Far East and European markets were left to consolidate. The pound traded comfortably, although the level of activity was low, and the ERI rose from 95.7 to 96.1.

The pound closed around two cents firmer at 2.0032 yesterday in New York where Federal Funds traded below 18% at one stage. This morning sterling opened at 2.0093 and touched 2.01 on the early exchanges as the dollar started weaker. Once again, however, the early trend was reversed and sterling soon established a trading level around 2.0050. Early this afternoon the dollar came into demand and the pound was cut down to 1.9980. However with money in New York opening easier than expected (funds later traded at 16%), the dollar could not maintain these levels and sterling closed at 2.0014. Sterling's three-month forward premium narrowed to 5%. Three-month Euro-dollars were  $\frac{1}{2}$ % softer at 17%. The intrinsic premium remained at 1/16%.

The pound lost a further  $\frac{1}{2}$ % to the Swiss franc (4.06 $\frac{1}{2}$ ) but gained  $\frac{1}{8}$ % against the deutschemark (4.71) and 1 $\frac{1}{2}$ % against the French franc (11.33 $\frac{1}{2}$ ). The dollar eased to 2.0292 in Zurich and 2.3530 in Frankfurt. The French franc (5.6650) fell sharply to the bottom of EMS, 2 $\frac{1}{2}$ % distant from the deutschemark. The French sold deutschemarks worth \$84mn. The Belgians, too, spent \$70mn. and \$22mn.-worth of deutschemarks, while the Irish sold \$40mn. The Italians, however, took in \$52mn. and the Danes \$18mn. The yen firmed to 221.80.

Gold was a little better for the cheaper cost of carry. Fixings were \$465 and \$466.50.

Operations:	IDA	+	\$26mn.
	India	+	10
	Crown Agents	+	6
	Sundries	+	2
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		+	\$44mn.
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*Jew* 23rd June 1981.

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