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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 24th June 1981

Several different cross-currents combined to move the ebb and flow of funds across the exchanges today. The dollar itself showed no firm trend as the cheaper cost of overnight money was offset by the weakness of the supply-sated debt markets. Hot money continued to escape from France to Switzerland and the innate strength of the Swiss franc was now exaggerated by half-year balance sheet considerations. Sterling, too, suffered from diversification into Swiss francs and the ERI fell from 96.1 to 95.6.

The pound closed two cents cheaper at 1.9810 yesterday in New York where the dollar gained up to 1% after the Federal Reserve drained money from the domestic market with Federal Funds at 16½%. This morning in the Far East the dollar gave up part of its overnight gain and sterling opened in London at 1.9905. The morning was quiet and the pound improved to 1.9926. The tide was turned by a large Swiss operator who sold pounds in size, probably for Swiss francs. Other sellers were drawn in and sterling fell to 1.9775 by early afternoon before a sizeable commercial buyer came to the rescue. Early New Yorkers, too, bought pounds as the dollar tended generally softer with money trading easier again. Sterling settled around 1.9850 for the rest of the afternoon and closed at 1.9858. Three-month Euro-dollars were ¾% better bid at 17 7/16%. The forward premium widened to 5 5/16% p.a. and the covered differential moved to 1/16% against London.

The pound was ¼% weaker in Germany (4.69%) and lost 1% in Switzerland (4.01%) and 1½% in France (FF.21½). The dollar was mixed and with interest rate considerations pulling in either direction and Federal Funds moving rather erratically, it reacted rather to local considerations in each centre. The Swiss franc firmed to 2.0240 (after 2.0187). The deutschemark was easier at 2.3645 (after 2.3728). The Swiss franc/deutschemark cross-rate came close to 0.85 (cf. 0.91½ before the French Presidential elections). The Swiss swapped in \$546mn. over the half-year end to effect a close of 0.85%. The French franc was under pressure for much of the day (though never at its limit with the deutschemark) and the Bank of France sold deutschemarks worth \$83mn. Towards the close short-covering carried the franc to 5.6475 and it finished comfortably within EMS. The deutschemark and Belgian franc (38.68) were the outriders, 2% apart. The Italians bought \$62mn. and the Danes \$36mn. The Irish sold \$9mn. The yen eased to 222.42.

Gold was dull and featureless. Fixings were \$462.25 and \$462.

Operations:	Market	-	\$4mn.
	IFA	+	9
	Sundries	+	4
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		+	\$9mn.
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	Overnight	-	\$39mn.
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