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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 25th June 1981

Sterling was widely sold in New York yesterday in response to a buying order for deutschemarks. As a result, today's session was somewhat nervous but the pound came through largely unscathed in the face of a strongly resurgent dollar. The ERI fell from 95.6 to 94.7, reflecting the combined effect of yesterday's late decline against Continental currencies and today's dollar strength.

The pound was sold down to 1.9660 in New York yesterday before closing at 1.9707, still $1\frac{1}{2}$ cents below London's closing level. The dollar was otherwise little changed. This morning Euro-dollars opened harder and the dollar began rather firmer. Sterling started at 1.9705 and, with the dollar generally steady, found ready European sellers in a nervous market. The pound was quickly offered down to 1.9605 but recovered to 1.9735 when profits were taken by yesterday's sellers. This afternoon, the dollar steadily gained ground. Federal Funds were firm at $18\frac{1}{2}\%$ and the currency was further boosted by the weakness of precious metals, by Volcker's Congressional testimony (which was taken to presage a continued high level of interest rates) and by Kaufman's prediction of record levels of interest rates yet to come. Sterling was marked back to 1.95 before closing at 1.9523. Three-month Euro-dollars were almost $\frac{1}{2}\%$ better bid at $18\frac{5}{16}\%$. The forward premium widened to $5\frac{1}{2}\%$ p.a. and the covered differential remained marginally against London.

The pound was weaker by $\frac{3}{8}\%$ in Paris (11.17 $\frac{1}{2}$), $\frac{1}{2}\%$ in Frankfurt (4.67 $\frac{3}{8}$) and $\frac{3}{4}\%$ in Zurich (3.98 $\frac{3}{8}$). The dollar gained well over 1% closing in these centres at 5.7225, 2.3930 and 2.0432. EMS narrowed to $1\frac{1}{8}\%$ between the deutschemark and Belgian franc (39.12). The Italians sold \$20mn. and the Irish \$14mn. The French franc fared comfortably throughout. The Swiss franc improved to 0.85 $\frac{3}{8}$ against the deutschemark and the National Bank swapped in a further \$562mn. over the half-year. Elsewhere the Swedes gained \$45mn. but the yen weakened to 225.45.

Gold collapsed to around \$454 late in New York yesterday and traded nervously around that level in the Far East and Europe this morning, fixing at \$454.50. The testing of the \$450 level - a new low for the year - came in the later fixing, with the dollar advancing on the exchanges. The market came within an ace of fixing at \$451 but, having failed to do so, was heavily offered down to \$445. The fixing lasted nearly an hour and the final level was \$446.50. Turnover was described as extremely heavy, with panic selling from several erstwhile firm holders.

Operations:	Market	+	\$4mn.
	Iran	+	16
	IDA	+	9
	Government	-	21
	Sundries	+	5
		+	\$13mn.

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