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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th June 1981

The dollar was very firm this morning, following the tightness of Federal Funds yesterday, but eased back considerably this afternoon when money in New York declined from 19% to 18½%. Sterling was again professionally sold this morning but otherwise survived the day quietly. Further ground was ceded to the Continental currencies and the ERI fell to 94.5.

The pound closed at 1.9457 yesterday in New York after business at 1.94. The dollar improved there as interest rates edged higher but sterling was sold by the IMM. This morning the dollar began a good deal better. Sterling opened at 1.9405 and was quickly sold down to 1.9340 by the dawn raiders from Switzerland. A touch from the official hand, a fortuitous turn in the dollar and the appearance of a sizeable commercial buyer of pounds combined to drive sterling back to 1.9440. The commercial demand, however, was more than sated by ready sellers and the rest of the morning was passed nervously around 1.94. Early Americans sold pounds and the rate dipped to 1.9355. Once Federal Funds started to decline, however, profits were taken in the dollar and the pound recovered to 1.9505 before closing at 1.9487. Markets were thin this afternoon and dealers were to some extent anticipating a weaker dollar next week, once end-month considerations were over. Three-month Euro-dollars closed only ¼% firmer at 18 7/16%. The forward premium widened to 5 13/16% p.a. and the covered differential remained marginally against London.

The pound shed ¼% in Paris (11.11) and Frankfurt (4.64%) and over 1% in Zurich (3.94%). The dollar eased in these centres to 5.70½, 2.3842 and 2.0250 respectively. The Bundesbank sold \$22mn. in the fixing and the French spent \$38mn. The French franc hit an all-time low of 5.76 this afternoon. EMS was fully-stretched between the deutschemmark and Belgian franc (39.18), with the latter at 74 on the index of divergence. The Belgians lost \$36mn. and \$54mn.-worth of deutschemarks. The Italians bought \$50mn. and the Irish sold \$14mn. The Swiss franc closed below 0.85 to the deutschemmark and the Swiss swapped in a further \$425mn. over the turn to create liquidity.

Gold remained abjectly weak and traded this afternoon to a new low for the year (\$440). Fixings were \$443.75 and \$442 - the latter the lowest this year - but with the declining cost of carry the close was a more respectable \$445. Silver was particularly soft (\$9 was tested) and this contributed in no small part to gold's further decline.

Operations:	Market	-	\$29mn.
	Post Office	-	9
	(PSB G'teed)		
	Interest	+	18
	IDA	+	13
	BIS	+	5
	Sundries	+	1
		-	\$1mn.

*JGH*  
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