

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 29th June 1981

After some initial uneasiness, sterling settled down to a quiet, if still nervous session. The market was generally in the doldrums, awaiting the passing of the half-year. Only the dollar was firmer in response to some unanticipated tightness in money in New York. Sterling's ERI fell to 94.2.

The pound closed at 1.9595 on Friday in New York, where the dollar was considerably weaker following another set of encouraging monetary aggregates. This morning, despite the expected easing in Euro-dollars, the dollar began a little better. Sterling, in particular, was marked down to 1.95 at the opening and soon fell to 1.9475 as Far Eastern and Swiss banks sold pounds on the opening exchanges. Having weathered that early squall, however, the pound recovered to around 1.95 and later advanced to 1.9555 as the dollar traded off. With Federal Funds, however, opening firm, New York bid for dollars and sterling was, as often, marked back and forth in accordance with the dollar's gyrations. The rate touched 1.9425 before closing at 1.9435. Three-month Euro-dollars were  $\frac{1}{2}\%$  easier at 17 15/16%. The forward premium narrowed only to 5 7/16% p.a. and the covered differential closed slightly in favour of London.

The pound was a touch better in Switzerland (3.95 $\frac{1}{2}$ ), a fraction softer in Germany (4.64 $\frac{1}{2}$ ) and  $\frac{1}{4}\%$  easier in France (11.08). The dollar improved to 2.0327 against the Swiss franc and 2.3895 against the deutschemark. The French franc, however, was unchanged at 5.7010. EMS was characterised by the weakness of the Belgian franc (39.20) which finished at 72 on the index of divergence, fully 2 $\frac{1}{2}\%$  distant from the deutschemark. The Belgians sold \$32mn., \$29mn.-worth of deutschemarks and \$22mn.-worth of Swiss francs. The yen eased slightly to 225.45.

Gold continued in dire straits, with silver - cheaper by another 5% - still a dominant factor. Fixings were \$431.50 and \$428.75, both new lows for the year.

Operations:	Market	-	\$33mn.
	IDA	+	26
	Iraq	+	6
	Iran	+	5
	Sundries	+	1
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		+	\$5mn.
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(o/w +21 for June)

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