

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 4th March 1981

Another difficult day for markets as contrary threads of influence pulled in different directions, fraying nerves and unravelling stability. Rumours of some sort of package in support of the Swiss and German currencies made the dollar decline sharply in New York last night; it fell further in London but abruptly reversed direction when the Germans affirmed the continuation of a 12% Lombard Rate for tomorrow and as the generous extent of facilities taken up already (DM 54bn. in two days) became apparent. Sterling bowed to a large selling order from Hong Kong and the ERI fell to 98.7.

After a level of 2.21, the pound closed in New York at 2.2075. It opened at 2.2127 this morning and met some modest demand, touching 2.2225 at best but was then offered, in sizeable amounts but in an orderly manner, out of Hong Kong, which brought a steady decline to the close of 2.1970. That the rate held up so well is evidence of some buying interest being satisfied. At least £150mn. was sold. Euro-dollars resumed their downward path, losing about $\frac{3}{8}$ % today. The covered premium at three months remains in London's favour and has risen to $\frac{3}{8}$ % p.a.

The pound lost yesterday's gains against the deutschemark (closing at 4.70 $\frac{3}{8}$) and the French franc (11.07 $\frac{1}{2}$) but fell 2% in Switzerland (4.27 $\frac{3}{8}$) where the dollar was particularly weak, closing at 1.9465. The dollar eased about 1 $\frac{1}{2}$ % against the EMS, to 34.88 in Belgium and 2.3495 in Holland, these currencies being 2 $\frac{1}{2}$ % apart. There was, however, no pressure today or intervention in favour of the franc (Belgian Lombard Rate was raised by 1% to 13%). The deutschemark was well bid this morning after the overnight rumours of a support package but fell away when German interest rates were kept from rising by the Bundesbank's actions: it rose only a net 1% to close at 2.1410. The yen was little changed at 208.55.

Gold moved up a little overnight and found buying interest this morning, when it fixed at \$475.75. During an hour-long second session, with rapid switching from net buying interest to net selling interest, the main influence was the strengthening dollar. Substantial offerings from North American markets forced the price down to \$465.50. It later eased to a 15-month low around \$462.

Operations:	Market	-	\$6 mn.
	IDA	+	10
	Sundries	+	2
		+	<u>\$6 mn.</u>

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DAHB

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