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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 20th March 1981

As American interest rates reversed their recent trend the dollar improved but, as often occurs, it failed to hold its better levels. Sterling was supported by a purchase by the European Commission (for payment to HMG). The ERI was unchanged at 100.2.

The dollar's improvement began in New York, where sterling eased to 2.2710. It was quoted at 2.2692 in London at the opening and followed the general retreat in front of the dollar, falling back to 2.2640. Thereafter it moved steadily stronger, partly on the order from Brussels (of which £25mn. out of £82mn. was completed today), partly on the slippage back by the dollar. After 2.2735 the rate closed little changed on the day at 2.2705. Euro-dollars rose to 14 3/16% but forward margins widened to compensate: a covered differential of a bare 1/16% was re-established in the dollar's favour.

There were minor rises recorded in Europe by the pound, which closed at 4.68½ in Germany, 11.04½ in France and 4.26½ in Switzerland. The dollar's net gain since last night on the Continent was around ½%. In Germany, after reaching 2.0740 this morning, it closed at 2.0637. The deutschemark continued to lead EMS and by the end of the day was 2½% better than the Belgian franc (33.81). But there was pressure during the day and the Belgians sold the equivalent of \$99mn., almost wholly in deutschemarks. The lira eased to 1010½ - nearly 5% below the top - in spite of expenditure of \$162mn. (The Italians reported this morning that they had sold deutschemarks yesterday, equivalent to \$44mn. in addition to the dollar amount already recorded.) The Swiss franc weakened to 1.8795 whilst the yen moved contrarily, improving to 208.17.

Gold had a very difficult day. The first fixing was orderly and of average duration: the price was \$509.50. In the second fixing, however, there were heavy buying orders which forced the price up to \$520 before, after 75 minutes in session, an agreed price of \$516.75 was struck.

Operations:	Market	-	\$4mn.
	PSB		
	Post Office + 15		
	B.Airways + 35	+	50
	Interest	+	6
	IDA	+	5
	Bangladesh	-	11
		+	\$46mn.

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DAHB

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