

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 31st March 1981

The shooting of President Reagan and the improvement in the Polish situation brought pressure on the dollar in U.S. markets yesterday but the steady hand of the Federal Reserve ensured a calmer session in Europe today and over half of the lost ground was regained. Sterling was not active but weakened on the Continent as the deutschemark gained from the turn of events in Poland. The Belgian, French [and Italian] currencies each experienced peculiar pressures. Sterling's ERI fell from 100.6 to 100.1.

The pound closed at 2.2625 yesterday in New York in response to the dollar's weakness. This morning it began at 2.2475 and traded all day between 2.2365 and 2.2507, closing at 2.2420. There was little business of note and the dollar's fluctuating fortunes provided the key to sterling's performance. Eurodollars opened softer, regained most of their losses, then eased again this afternoon when Federal Funds began trading 1% below yesterday's levels. Sterling's three-month premium narrowed to 2 $\frac{3}{4}$ % p.a. only, so that the covered differential in London's favour rose to 5/16%.

The pound shed  $\frac{3}{4}$ % in Switzerland (4.28%) and 1% in each of France (11.06%) and Germany (4.69%). The dollar lost slightly more than this, closing in these countries at 1.9115, 4.9350 and 2.0945 respectively. Yesterday the Federal Reserve bought \$74mn. for deutschemark. Today the Bundesbank bought \$25mn. The Belgian National Bank raised official interest rates by a further 3% (Lombard Rate to 18%, Discount Rate to 16%) but pressure continued on their franc (34.33). \$191mn. equivalent of currencies (mostly deutschemark) were sold in Belgium and Germany to support the currency which improved to 92 on the adjusted index of divergence and closed only 2  $\frac{3}{16}$ % distant from the deutschemark. The French sold \$158mn.-worth of deutschemark to contain pre-election pressure and keep their franc near the top of EMS. Elsewhere the Irish spent \$23mn. and the Danes \$37mn. but the Swedes took in \$60mn. The yen closed at 211.40 in Tokyo and 210.95 in London.

Apart from a brief surge to \$525, following the attempted assassination of the President, gold tended softer in U.S. markets yesterday on developments in Poland. The metal traded steadily in London, with fixings at \$514.25 and \$513.75 but was sold down again to \$507 in U.S. markets late in the day.

Operations:	Market	- \$4mn.
	India	+ 11
		+ \$7mn.

The result for March (before revaluation) is a reserve increase of \$35mn. to \$28,469mn., after public sector debt repayments (net) of \$16mn. The annual revaluation reduces the level of the reserves by \$257mn to \$28,212mn. The overbought forward position was increased by \$137mn. to \$1,751mn.

*\$ + 427 of a Rev*

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