

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 2nd April 1981

The exchanges were generally dull until this afternoon when the unexpected firmness of Federal Funds in New York caused the dollar to strengthen and this triggered further support for some European currencies. Sterling survived a short bout of nervousness ahead of Minimum Lending Rate but otherwise reflected the dollar's movements. The ERI fell to 100.1.

The pound closed at 2.2420 in New York yesterday, opened at 2.2397 this morning and traded around that level until mid-morning. Gilt market rumours of an impending reduction in MLR provoked Dutch selling of pounds and sterling traded down to 2.2343 before steadying. Late in the day the renewed strength of the dollar saw the rate marked back to close at 2.2337. Sterling's three-month forward premium widened to 2 3/16% p.a., more than compensating for easier sterling deposits. The covered differential thus rose to 3/16% in London's favour.

The pound lost 1/4% in Zurich (4.28 1/2%) but was unchanged in Paris (11.09 1/2%) and Frankfurt (4.70 1/2%). The dollar improved in these centres to 1.9187, 4.9685 and 2.1048 respectively. EMS closed 2 3/16% spread between the Belgian franc (34.50) and deutschemark, with the franc reverting to 92 on the adjusted index of divergence. The Belgians sold \$135mn.-worth of deutschemarks. The French sold a further \$53mn. of deutschemarks to keep their franc within sight of that currency. The Italians spent \$150mn. although the lira (1047.50) moved to within 1/4% of the deutschemark. The Irish lost \$30mn. The yen closed at 212.60 in Tokyo and 213.40 in London.

Gold was again steady. Fixings were \$517 and \$519.50.

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|-------------|-----------|-----------|
| Operations: | Market | + \$1mn. |
| | Iraq | + 11 |
| | Sundries | + 3 |
| | | <hr/> |
| | | + \$15mn. |
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| | Overnight | - \$13mn. |
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