

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 3rd April 1981

Sterling fell sharply in New York yesterday when a sizeable selling order hit a thin market. Later, the dollar advanced on a broad front following news of increased U.S. fears of a Soviet invasion of Poland. Today, with eurodollars firmer, the dollar's improvement continued. Sterling proved relatively well protected till late in the day when Chicago again sold pounds. The ERI fell from 100.1 to 99.5.

The pound fell from 2.2337 to 2.2040 in New York yesterday after business at 2.1995. This morning, despite a sharply better dollar, it opened at 2.2082 and, after touching 2.2145, established a trading range around 2.21 which lasted until mid-afternoon. Then, as the dollar surged forward again, sterling was sold down to 2.1970 before closing at 2.2035. Eurodollars were nearly  $\frac{1}{2}\%$  better bid, sterling deposits a touch easier. Sterling's three-month forward premium widened by  $\frac{1}{8}\%$  to 2  $\frac{9}{16}\%$  p.a. so that the covered advantage for London dropped to 1/16%.

The pound shed  $\frac{1}{8}\%$  in France (11.07 $\frac{1}{2}\%$ ), Switzerland (4.27 $\frac{1}{2}\%$ ) and Germany (4.69 $\frac{1}{2}\%$ ). The dollar gained over 1%, closing in these countries at 5.0245, 1.9405 and 2.1290 respectively. EMS finished more than fully-stretched between the deutschemark and Belgian franc (34.98) and the latter moved out to 95 on the index of divergence. The Belgians sold \$214mn.-worth of deutschemarks and \$22mn. of sterling. The Bundesbank bought Belgian francs worth \$10mn. The Bank of France sold \$17mn.-worth of deutschemarks and the Irish spent a further \$25mn. The Swedes took in \$68mn. The yen closed at 213.65 in Tokyo, in London at 213.82.

Gold hardened in the East this morning, following the American reassessment of the Polish situation, and traded firmly throughout the day. Fixing levels were \$523.50 and \$523.

Operations:	Market	-	\$2mn.
	India	+	22
	I.M.F. o/a Sierra		
	Leone	+	11
	Interest	+	10
	Ghana	-	7
	Jamaica	-	5
	Sundries	-	1
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		+	\$28mn.
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for  
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