

DGPS

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Mr. SangsterFOREIGN EXCHANGE AND GOLD MARKETS
25TH MARCH - 3RD APRIL

Political developments, in particular the growing threat to Poland from the Soviet Union, have dominated the exchanges in the past 10 days. The attempted assassination of President Reagan caused the dollar to weaken sharply on Monday night but it recovered quickly with some modest assistance from the Fed. Except for increasing speculation about the timing of the next cut in MLR, interest rate considerations have not been to the fore.

Sterling has for the most part been a rather quiet market. The rate has fallen back as the dollar has strengthened but it has held fairly steady on the Continent. Periods of active trading have been rather few but there was some nervousness in advance of the MLR announcement on 2nd April. Shortly before the close on Friday afternoon the rate dipped to 2.1970.

The dollar has fluctuated considerably depending on the most recent news from Poland. Weinberger's statement on the night of 2nd April that the risk of Soviet intervention had increased within the past two days caused the dollar to firm and it finished close to its strongest levels for the period. The firmness of US interest rates (Fed Funds have been trading above 15%) has also helped the dollar. Following the devaluation of the lira, attention in EMS has switched to the Belgian franc which has required massive support. Discount and Lombard rates were each increased by 3% to 16% and 18% respectively on 31st March as the Belgian Government tendered its resignation (which was accepted on 2nd April). The deutschemark has remained at the top of EMS throughout, closely followed by the French franc but the French have been supporting their currency actively to curb any pre-election jitters. The lira has also received considerable support since its devaluation although it has been only 1/2% below the mark in the arrangement. The yen has fallen back against the dollar on chartist views that the trading range should now be 210/220.

The Polish news has made for an active and volatile gold market and fixings have ranged between \$547.25 on 27th March and \$513.75 on 31st March. The price ended at \$523.

3rd April 1981

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MAIN EXCHANGE RATES

	<u>24th March</u>	<u>3rd April</u>
	<u>close</u>	<u>close</u>
\$		
£	2.2645	2.2035
DM	2.0845	2.1290
SF	1.8945	1.9397
FF	4.9040	5.0245
Yen	208.55	213.82
£		
DM	4.72	4.69 $\frac{1}{8}$
SF	4.29	4.27 $\frac{3}{8}$
FF	11.10 $\frac{1}{2}$	11.07 $\frac{1}{8}$
£ effective	100.6	99.5
Gold	\$536.25	\$523

Intervention abroad (main items)

(\$bns.)

Belgium	- 1.5 equivalent (mostly DM)
Italy	- 0.7
France	- 0.4
Sweden	+ 0.3
Ireland	- 0.2
USA	+ 0.1