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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 7th April 1981

Despite a further sharp upturn in Euro-dollar rates, Brezhnev's apparent demarche on Poland took the steam out of the dollar. Sterling traded comfortably and was particularly firm following this afternoon's publication of the banking statistics and the money supply indication. The ERI rose to 98.9.

The pound closed at 2.1745 in New York yesterday. This morning the Far East took profits in the dollar and sterling began at 2.18, touching 2.1815 on the early exchanges. This proved the morning's best level, even though the dollar's decline continued, and the pound traded quietly near the opening price for the most part. (2.1755 was dealt at one point.) This afternoon the banking statistics seemed well received and sterling came into some demand, advancing to 2.1883 before closing at 2.1840. Three-month Euro-dollars were again over $\frac{1}{2}\%$ firmer at $15\frac{1}{2}\%$ (after 16 $\frac{3}{16}\%$). Sterling's forward premium, however, widened to 3 $\frac{13}{16}\%$ p.a., so that London's covered advantage rose to $\frac{3}{16}\%$.

The pound was little changed in Switzerland (4.26 $\frac{1}{2}$) but somewhat better in France (11.04) and Germany (4.68). The Bundesbank sold \$30mn. this morning and this seemed to hasten the dollar's decline. It closed at 2.1428 to the deutschemark and 1.9535 to the Swiss franc. The deutschemark replaced the French franc (5.0540) at the head of EMS, with the Belgian franc (35.11) 2 $\frac{3}{16}\%$ distant and 90 on the index of divergence. The Belgians and French sold deutschemarks worth \$15mn. and \$33mn. respectively. Elsewhere the Swedes took in \$55mn. The yen closed at 213.60 in Tokyo and 213.70 in London.

Gold, too, met profit-taking in the Far East and continued to decline throughout the day, with Brezhnev's words on Poland a bearish influence. Fixing levels were \$517 and \$514.25.

Operations:	Market	-	\$2mn.
	India	+	11
	Interest	+	8
	Sundries	+	3
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		+	\$20mn.
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