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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 11th May 1981

Mitterrand's victory in the French Presidential elections dominated activity on the exchanges today. Although pressure was slow to build up, the French franc eventually required substantial support and its partners in EMS were dragged down to new benchmark lows against the dollar. Sterling remained aloof and traded quietly. Further considerable gains were scored on the Continent and the ERI rose from 98.9 to 99.3.

The pound closed at 2.1260 on Friday in New York, where the dollar was generally softer following declines in the monetary aggregates. This morning, despite an easier trend in eurodollars, the dollar opened sharply firmer, as the impact of the French franc's weakness rippled across Europe. Sterling began the day at 2.1082, touched 2.1050 on the early exchanges, then moved ahead, as the dollar retreated at the first signs of official intervention on the Continent, to establish a range around 2.11, hitting 2.1131 at best. This afternoon rising U.S. interest rates - Chase began a round of prime rate increases of  $\frac{1}{2}\%$  to  $19\frac{1}{2}\%$  - took the dollar back up towards the day's best levels and sterling fell to 2.1055 before closing at 2.1065. Three-month eurodollars closed  $\frac{3}{16}\%$  easier at  $19\frac{1}{2}\%$  (after  $19\frac{5}{16}\%$ ). Sterling's forward premium, however, was narrower by  $\frac{5}{16}\%$  at  $6\frac{15}{16}\%$  p.a. so that, despite some firming in sterling deposits, the adverse covered differential rose to  $\frac{1}{2}\%$ .

The pound put on  $\frac{1}{2}\%$  in Zurich (4.36%) and  $\frac{3}{8}\%$  in Frankfurt (4.80%). Against the hapless French franc it gained a massive  $2\frac{1}{2}\%$  (11.57%). The dollar closed in Switzerland at 2.0740, in Germany at 2.2813, after setting new  $3\frac{1}{2}$ -year highs of 2.0840 and 2.2850 respectively. The lira found another all-time low (1134.75) and the guilder (2.5395) and Belgian franc (37.34) saw their worst for  $4\frac{1}{2}$  years. The French franc closed at 5.4945, after a new ten-year low of 5.51, but interest centred on the DM cross-rate which, by late morning, had fallen to its limit of 2.4093. The French sold \$14mn. and deutschemarks worth \$475mn. EMS was only  $2\frac{3}{16}\%$  at the close but the franc stood at 83 on the index of divergence. Elsewhere the Italians spent \$144mn. and the Irish \$16mn. The Bundesbank bought \$15mn.-worth of French francs but took DM 2.5bn. out of their system by swapping out dollars for two weeks. The Swedes bought \$37mn. The yen eased a touch to 217.94.

Gold soared to \$508 in Hong Kong following news of the French election result but had retreated to \$503 by first light in London. The morning session was steady and the fixing set a level of \$501. This afternoon, however, rising U.S. interest rates took their toll and, after fixing at \$493, the metal closed around \$489.

Operations:	Interest	+	\$43mn.
	India	+	11
	Iran	+	10
	Bangladesh	-	11
	Sundries	-	1
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		+	\$52mn.
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	Overnight	-	<u>\$6mn.</u>

*JGH* 11th May 1981.

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