

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 13th May 1981

It was another harrowing day for the French and German authorities as they struggled to keep the European Monetary System intact in the face of the panic flight from the French franc and the continuing firmness of the dollar. They have now committed over \$2.5bn. of exchange between them since the French election result. Sterling once again met occasional heavy selling. In the absence of official support, it is becoming an obvious speculative target. The ERI fell from 98.9 to 98.5.

The pound closed at 2.0940 in New York yesterday but, with the dollar somewhat softer this morning, it began today at 2.0993. The morning was relatively quiet and sterling tended to mirror the dollar's movements. After touching 2.1036, it traded down progressively to around 2.09 by midday. Early this afternoon, heavy selling was encountered from London and New York and the pound lost another half-cent, although the dollar was otherwise little changed. Later the dollar resumed its advance and sterling - still offered from time to time - retreated to close at 2.0845. Later still, business took place down to 2.0755. Sterling's three-month forward premium was unchanged at 7 5/16% p.a.; three-month eurodollars were 1/4% firmer (after technical adjustment) at 19 1/2% and the intrinsic discount rose to 3/16%.

The pound gave up a further 3/8% in France (11.50 1/2) and Germany (4.77 3/8) and 1/2% in Switzerland (4.31 3/8). The dollar closed little changed in these centres at 5.5190, 2.29 and 2.0705 respectively. Yesterday the Bundesbank spent \$150mn. in New York and today they poured out \$350mn. In addition, DM lbn. of liquidity was drained by swapping out dollars for three weeks. EMS was fully-stretched for most of the day with the French franc now at 85 on the index of divergence. The Bank of France sold deutschemarks worth \$370mn.; the Bundesbank took in \$87mn.-worth of French francs. The Irish sold \$16mn. The yen eased to 219.64.

Gold regained the day's losses in New York yesterday and traded quietly and steadily today, giving a little ground to the advancing dollar this afternoon. Fixing levels were \$486.50 and \$484.25.

Operations:-	Market	- \$6mn.
	Strathclyde R.C.	+ 38
	(PSB G'teed)	
	India	+ 21
	Interest	+ 9
	Iran	+ 8
	Sundries	- 2
		<hr/>
		+ \$68mn.
		<hr/>
	Overnight	- \$6mn.
		<hr/>

JGH 13th May 1981

JGH