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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 27th May 1981

Despite the absence of any significant change in interest rates, the dollar continued to forge ahead onto new, high ground today as perceptions hardened that the fundamentals for the dollar and Deutschemarek seemed set respectively for the better and worse. Sterling was quiet and comfortable for much of the day, although sellers were in evidence this afternoon. The ERI fell to 98.7.

The pound closed at 2.0610 in New York yesterday but opened at 2.0690 this morning, touching 2.0705 on the early exchanges, as the dollar struggled to find a direction. Eventually deposits began to harden and the dollar moved ahead. Sterling held up well falling no lower than 2.0616 before stabilising around 2.0630. The afternoon began with heavy Swiss professional buying of dollars. New York joined in and were again small but persistent sellers of pounds. Sterling declined progressively to 2.0570 - another 18-month low - before closing at 2.0585. Three-month Euro-dollars were a shade firmer at 18 $\frac{1}{2}$ %. Sterling's forward premium widened a touch to 6 $\frac{1}{2}$ % p.a. and the covered differential remained at $\frac{1}{2}$ % in London's favour.

The pound lost $\frac{1}{8}$ % in Paris (11.44 $\frac{1}{8}$) but gained $\frac{1}{4}$ % in each of Frankfurt (4.83 $\frac{1}{4}$) and Zurich (4.30). The dollar firmed by around $\frac{1}{4}$ % in these centres to 5.5580, 2.3470 and 2.0890 respectively. The Bundesbank sold \$178mn. The lira (1164) and Belgian franc (38.27) were the outriders in EMS, 1 $\frac{3}{4}$ % apart. The Italians sold \$150mn. The Belgians reduced Discount and Lombard rates, each by 1%, to 13% and 15% respectively. The yen weakened to 225 (after a 9-month low of 225.22). En passant the dollar set new benchmark highs in Switzerland (2.0935; 3 $\frac{1}{2}$ years), Germany (2.3560; 4 years), Belgium (38.28; 5 years), the Netherlands (2.6112; 5 years), Sweden (4.9820; 9 $\frac{1}{2}$ years) and Italy (1164 $\frac{1}{2}$; the highest ever).

Gold remained depressed by the stronger dollar. Fixings were at \$467.75 and \$466.75 but late in the day a technical rally in New York took the price to \$471.

Operations:	Market	+	\$3mn.
	Iran	+	24
	Interest	+	13
	Sundries	-	12
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		+	\$28mn.
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