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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 2nd June 1981

The dollar was bid up to new recent high levels as the pressure of rising interest rates began to bite. Sterling was once more uncertain and, despite the presence of commercial buyers, professional selling carried the pound down to a two-year low against the dollar. The ERI fell from 98.3 to 98.1.

The pound closed at 2.0537 in New York yesterday. This morning it opened at 2.0465 but recovered to 2.0502 on the opening exchanges. Although commercial buyers were evident, the Swiss professionals were heavy sellers and sterling retreated progressively to 2.0380 by mid-morning before steadying around 2.04 as a large commercial buying order was placed. This afternoon Federal Funds in New York were again very tight and the dollar moved ahead to new peaks. The pound fell back to 2.0345, its lowest level for two years, before recovering, as profits were taken in the dollar, to 2.0395 at the close. Three-month Euro-dollars were around  $\frac{1}{2}\%$  firmer at 18  $\frac{11}{16}\%$ . Sterling's forward premium narrowed to 5  $\frac{9}{16}\%$  p.a., leaving an intrinsic discount of  $\frac{1}{16}\%$ .

Sterling was little changed in France (11.43 $\frac{1}{2}$ ) and Switzerland (4.26 $\frac{3}{8}$ ) but gained substantially in Germany (4.82 $\frac{3}{8}$ ). The dollar was well over 1% better on the Continent closing in Paris at 5.6052 (after an all-time high of 5.6287) and 2.0905 in Zurich (after 2.0987). Against the deutschemark it was traded up to 2.3713 before closing at 2.3650. EMS was 1  $\frac{11}{16}\%$  spread between the deutschemark and Belgian franc (38.56). The Belgians sold \$70mn. and the Italians spent \$65mn.; the French bought deutschemarks worth \$9mn. The yen eased to 223.45.

Gold gave up almost \$10 in New York yesterday but traded fairly comfortably around the lower levels today. The fixings set prices of \$473.50 and \$474.

Operations:	Market	-	\$12mn.
	Bangladesh	-	21
	Interest	+	10
	Iran	+	5
	Sundries	+	1
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		-	\$17mn.
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