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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 8th June 1981

After some initial uncertainty, sterling sailed comfortably through today and, as the dollar receded from its recent heights, so the pound regained some useful ground. Volume was not excessive but, with one or two exceptions, there was a marked absence of sellers. The ERI rose from 93.8 to 94.7.

With the dollar easing in the wake of the latest U.S. monetary aggregates, sterling closed at 1.9235 in New York on Friday. In the East this morning, however, the dollar recovered much of its losses and the pound once more came under attack, with Japanese banks now prominent sellers. The opening price in London was 1.9152 but, after dipping to 1.9135 on the early exchanges, the pound held its ground in the face of a firm dollar and then advanced to 1.9265 on a modicum of short-covering. A familiar Middle East professional next appeared to sell sterling, which retreated to 1.92. Thereafter, with the dollar steady, sterling resumed a steady improvement and was trading around 1.9350 by lunchtime. A clutch of small buyers were in evidence and more significantly only one commercial seller of any size was seen. One major American bank in London was a persistent buyer of pounds. New York's dawn patrol took sterling, too, and, when American markets opened by marking down the dollar, the pound rallied to 1.9535. Volume, however, was thin and the market was dominated, as often, by the level of interest rates. When these began to turn up, the dollar recovered and sterling retreated to close at 1.9410. Three-month eurodollars closed nearly 1% easier at 17 13/16%. The forward premium narrowed to 4½% p.a. and the intrinsic discount edged up to 3/16%.

The pound regained ¾% on the French franc (11.02¾), ½% on the Swiss franc (4.12¾) and ¾% on the deutschemark (4.67¾). The dollar eased against these currencies to 5.68, 2.1275 and 2.4075 respectively. EMS closed 1½% spread between the deutschemark and Belgian franc (39.24). With most major European centres closed for the Whit holiday, only the Irish intervened to sell \$20mn. The yen recovered to 227.62.

Gold traded down to \$453 in New York on Friday, a new low for the year. This morning, with eurodollars easier, it regained some ground and was fixed at \$460. This afternoon, newswire reports of Israeli bombing of an Iraqi nuclear installation took the metal firmer and a long and difficult fixing ranged between \$462 and \$476 before setting a level of \$473.50.

Operations:	Market	-	\$115mn.
	Interest	+	11
		-	<u>\$104mn.</u>

Jem
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