

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 11th June 1981

Markets were relatively stable today, with activity largely confined to the morning session. Tightness in the US domestic market, where Fed Funds returned above the 20% level, caused the dollar to strengthen overnight in New York. Today the pound opened firm, weathered an attack during the morning by an assortment of European professionals with Middle East connections and ended the day comfortably. The ERI fell 0.2 to 94.8.

Sterling closed little changed in New York last night at 1.9650 against a generally stronger dollar. Recent pressure in the Far East was not evident today and, after opening in London at 1.9597, the rate rose to touch 1.9620 in early business. However, as the dollar moved up briefly in Europe some sizeable selling, mainly professional in nature but with a Middle East flavour, developed out of Switzerland and Germany. In a suddenly rather nervous market sterling rapidly lost almost two cents, the rate falling to 1.9425 before turning. This bout of pressure past, sterling settled to trade between 1.94½ and 1.95 for most of the balance of the day, closing at 1.9502. Three-month Euro-dollars were 1/16% firmer at 17 11/16% but sterling's forward premium widened to 5½% and a covered differential of ¾% opened up in favour of London.

The pound gained ¾% in both Germany (4.67%) and Switzerland (4.11%) and ½% in France (11.09%). The dollar was around 1% firmer in all these centres, closing at 2.3981, 2.1097 and 5.6875 respectively. EMS narrowed to 1½% between the mark and the Belgian franc (39.18). The only sizeable intervention was by the Italians, who sold \$12lmn.; the Germans sold \$44mn., the Belgians \$8mn. and the Irish \$6mn. The yen closed almost unchanged at 225.57.

Gold was very steady at \$464.25 at both fixings.

Operations:	Market	-	\$1mn.
	Iran	+	10
	India	+	10
	Interest	+	9
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		+	\$28mn.
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