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SECRET

THE DEPUTY GOVERNOR

Friday, 12th June 1981
FOREIGN EXCHANGE AND GOLD MARKETS

In a generally quiet session, in which sterling mostly idled, some late commercial demand brought a firm end to the week. The dollar tended softer (after a strong start) in a market still dominated by interest rates. The French franc suffered week-end pressure as the election loomed. Sterling's ERI rose from 94.8 to 95.1.

The pound closed at 1.9560 in New York yesterday. This morning the dollar opened firmer, although interest rates were little changed, and sterling was marked down to 1.9467. There was a rapid adjustment, however, and after trading at 1.9520, the pound settled back to trade around 1.95, a range which persisted well into the afternoon. With the dollar then softening, some late commercial demand for pounds took the rate to close at 1.9575, its best level of the day. Three-month Euro-dollars were little changed at 17 11/16% but sterling's forward premium narrowed to 5 1/2% p.a., thus opening a covered differential of 1/2% in London's favour.

The pound lost 1/2% to the Swiss franc (4.10 1/2), gained 1/2% on the deutschemark (4.68 1/2) and rose by 1 1/2% against the French franc (11.21 1/2). The dollar eased to 2.0955 on the Swiss franc and was a touch softer in Germany (2.3945). The French franc, however, weakened to 5.73, falling towards the bottom of EMS and provoking sales of \$36mn.-worth of deutschemarks by the Bank of France. The deutschemark and Belgian franc (39.12) continued as outriders in EMS, still 1 1/2% apart. The Belgians sold \$8mn.-worth of guilders and \$5mn. of Swiss francs, apparently the proceeds of a loan. The yen improved to 224.40.

Gold edged firmer through the morning, fixing at \$467, then rallied strongly this afternoon, when the fixing set a level of \$472.

Operations:	Market	+	\$4mn.
	BIS	+	10
	Mauritius	+	5
	Sundries	+	4
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		+	\$23mn.
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