

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 16th June 1981

The exchanges again marched to the beat of interest rates today, the dollar regaining its poise as money traded firmer than anticipated. Sterling kept to the same step, for the most part, although some keen buying interest around the middle of the session quickened the pace somewhat. Overall the ERI slipped from 95.8 to 95.7

The pound traded down to 1.9870 in New York yesterday, following news of the reduction in BNOG's oil price, before closing there at 1.9912. The dollar, however, lost up to a further 1% against some of the Continental currencies. This morning, with the dollar a touch easier yet, sterling was marked up to open at 2.0022. The dollar quickly turned ahead, however, and the pound was sold down to 1.9945 before steadying around 2.00. Persistent demand in London then drove sterling forward and, when early Americans returned to sell dollars, the pound was bid up to 2.0125. Eventually, however, Federal funds in New York proved tighter than anticipated, the dollar recovered to close around the day's best levels and sterling retreated, touching 1.9945 again before closing at 1.9970. Citibank's posting a mere $\frac{1}{2}\%$ reduction in Prime Rate to $19\frac{1}{2}\%$ tended to encourage the dollar. Three-month Euro-dollars closed $\frac{1}{4}\%$ easier at $17\frac{7}{16}\%$. Sterling's forward premium, however, widened slightly to $4\frac{13}{16}\%$ p.a. and the covered differential jumped to $\frac{3}{8}\%$ in London's favour.

The pound was little changed in Germany (4.69%) but gained $\frac{1}{8}\%$ on the Swiss franc (4.10%) and lost 1% to the French franc ($11.14\frac{1}{2}\%$). Short-covering brought the French franc over 1% firmer against the dollar (5.58) while the deutschemark weakened to 2.3525 and the Swiss franc to 2.0557. EMS narrowed to $1\frac{1}{8}\%$ in width between the deutschemark and Belgian franc (38.34). The Belgians sold \$13mn. and the Irish \$9mn. The Italians bought \$79mn. Elsewhere the Norwegians took in \$54mn. The yen was barely changed at 220.35.

Gold plunged to \$463 in New York yesterday as Congress confirmed a three-year sales programme of 105mn. ounces of silver. This morning the yellow metal recovered sufficiently to fix at \$466.75. Further pressure on silver approaching the mid-day fix in London brought renewed softness in gold and, when Americans returned as heavy sellers of the white metal, gold retreated further and was fixed at \$461.50.

Operations:	Market	+	\$4mn.
	Sundries	+	8
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		+	\$12mn.
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