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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 19th June 1981

A very quiet end to the week. The dollar firmed further from the outset and maintained its better levels through the day. Sterling was largely idle and the ERI declined to 95.1.

The pound closed at 1.9672 yesterday in New York where the dollar gained a further $\frac{3}{8}\%$ across the board in response to the continuing tightness of Federal Funds. This morning Euro-dollars opened around $\frac{1}{4}\%$ better bid and quickly added a further $\frac{1}{8}\%$. The dollar responded accordingly. Sterling began at 1.97, was swiftly marked down to 1.9635 and traded thereafter between 1.9603 and 1.9675, closing at 1.9632. The only business of any significance stemmed from a Central Bank buyer of pounds: this seemed to make little impact. Three-month Euro-dollars closed 13/16% firmer at 18 13/16%. The forward premium widened to $6\frac{1}{8}\%$ p.a. and interest parity prevailed.

The pound was unchanged in Paris (11.17 $\frac{1}{2}\%$), regained $\frac{1}{8}\%$ in Frankfurt (4.68 $\frac{1}{2}$) but lost $\frac{1}{8}\%$ in Zurich (4.07 $\frac{1}{2}\%$). The dollar advanced in these centres to 5.6925, 2.3865 and 2.0757 respectively. The trend in interest rates was mixed: money traded over 22% again at first in New York but the Federal Reserve supplied funds and eased the pressure. Nonetheless, Chemical raised their broker loan rate (to 21%) for the second successive day and Bankers Trust increased Prime Rate by $\frac{1}{8}\%$ to 20%, thereby reversing a reduction posted only three days ago. EMS was stretched to 2 1/16% between the deutschemerk and Belgian franc (39.05). With the latter now at 72 on the index of divergence, the Belgians spent \$9mn. and \$4mn.-worth of deutschemarks. The Italians, however, recouped \$96mn. Elsewhere, the Norwegians took in \$45mn. and the yen softened to 223.70.

Gold threatened to collapse this morning having drifted lower in the Far East to an opening level in London of \$457. The market, however, proved lacklustre and the metal was fixed at \$457.75 and \$458.25, improving to \$460 by the close, following the Federal Reserve's money market intervention.

Operations:	Market	+	\$2mn.
	Interest	+	5
	Sundries	+	2
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		+	\$9mn.
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