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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 16th December 1980

The dollar pulled itself back to pre-weekend levels as Euro-dollar deposit rates shrugged off yesterday's reaction to the latest American money figures; Morgan's prime rate increase to a record 21% level provided a further boost late in the day. Sterling opened very strongly and then gave some ground; but the ERI rose to 77.6.

In New York last night the pound slipped to 2.3195. It opened confidently at 2.3252 this morning and rose to 2.3295 but then eased quietly back to touch 2.3135 in mid-afternoon before closing at 2.3180 (later 2.3125). Trading was light. The forward premium at three months widened to 6 15/16% p.a. as Euro-dollars hardened by nearly 1% and sterling interbank remained steady; an intrinsic premium of 1/8% for sterling re-emerged.

On the Continent sterling rose by a net 1/8% or more to close at 4.66% in Germany (after 4.68%), 4.23% in Switzerland and 10.81% in France. The dollar recorded gains of nearly 1 1/8% although shying away from its best levels. The deutschemark eased to 2.0130 (after 2.02 which it again touched after the close), the Bundesbank having sold \$35mn. for Fed account. The Bank of France sold \$40mn. and the Bank of Italy \$20mn., their respective currencies ending at 4.66% and 954 1/2. This put the lira 3 3/16% below the florin (2.1890) which continued to lead EMS, 2 3/16% above the Belgian franc (32.45). The Danes bought \$23mn. At worst, the Swiss franc was at 1.83 1/2 (a level again reached after the close) but it rallied to end at 1.8257. In Tokyo the yen eased to 209.40; it closed just 5 sen higher in London.

Gold turned easier in the Far East and this tone persisted as the cost of financing again increased. Fixings were at \$559.75 and \$561 but turnover was below average.

Operations:	IDA	+	\$8mn.
	Sundries	+	3
		+	<u>\$11mn.</u>

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