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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 5th January 1981

The dollar was sharply arrested in its upward progress and then ripped apart today by a further downturn in interest rates, which was accelerated by the delayed U.S money supply figures (MIA - \$2.5 bn., MIB - \$2.8 bn.). Sterling advanced less dramatically than other currencies and the ERI rose only to 78.8.

In New York on Friday the pound had closed at 2.3850. With dollar interest rates opening on an offered tack, the first quotation in London this morning was 2.3925. In somewhat uncertain conditions the rate drifted to 2.3907 but an order of Middle East origin then began to be felt and sterling rose to 2.4020 at noon. Following the U.S. money figures, the advance continued to a close at 2.4115 after which New York took the pound to 2.4185. Eurodollars eased to 17 3/16% for three months and, in spite of a narrowing of forward margins to the equivalent of 3 5/16% for the same period, the covered differential in London's favour increased to 11/16% p.a.

Sterling lost 5/8% in Germany, 1/2% in France and Switzerland to close respectively at 4.68, 10.83 1/4 and 4.24. The dollar lost about 2%, falling to 1.9407 in Germany (1.9360 after the close). EMS had an uneventful day, narrowing to 2 3/16% between Belgium (31.26) and France (4.49 1/4), with the lira (924 1/4) 3 3/4% weaker than the latter's currency. There was no intervention. The Swiss franc hardened to 1.7582. The yen's thrust towards 200 was resisted strongly by the Japanese who bought \$545 mn. in Tokyo this morning (having taken in \$14 mn. in New York on Friday) as their currency again appealed as an alternative haven to the dollar: it closed there at 201.40. But they dropped the baton in London as usual and the yen progressed to 198.80, recording a net rise since Friday of just over 1 3/4%.

Gold, too, benefited from the dollar's weaker tone. It fixed this morning at \$592, near to the Far East's closing level; and then improved to \$597.50 at the second fixing. \$601.75 was quoted later on in New York.

Operations:	Market	+	\$ 5 mn.
	Interest	+	6
	Tanzania	-	6
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		+	\$ 5 mn.
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