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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th January 1981

The dollar weakened further this morning as interest rates continued to come off but regained its losses this afternoon when rates turned up again in New York. Sterling was particularly firm this morning (the ERI rising to 79.3) but was well offered this afternoon. Overall the ERI advanced to 79.0. The Japanese continued their active support of the dollar.

The pound closed at 2.4245 in New York yesterday, advancing more than the Continental currencies against the declining dollar. This morning it opened at 2.4262 and immediately tended firmer as the dollar remained on the offered side. Through an active morning the pound was seldom far from 2.43 and touched 2.4335 at one stage. Persistent demand was again evident from a Middle East source and there was also sporadic interest from commercial and professional operators. This afternoon, however, sterling was well offered as the dollar was purchased on a broad front from the United States. The pound eased to 2.4170 before closing at 2.4232. Three-month Euro-dollars were nearly $\frac{1}{2}\%$ softer at $16\frac{1}{2}\%$. Sterling's forward premium, however, narrowed to $2\frac{1}{2}\%$ p.a. so that the intrinsic premium fell to 7/16%.

The pound was unchanged in Paris (10.83 $\frac{1}{2}$), a touch easier in Zurich (4.23 $\frac{1}{2}$) and rather firmer in Frankfurt (4.68 $\frac{1}{2}$). The dollar's recovery was prompted by an upturn in the Federal funds rate to over 20% but this was later offset by the reduction in Prime Rate by Chemical Bank to 19 $\frac{1}{2}\%$. Overall the dollar closed easier in all centres. The Swiss franc was 1.7475, the French franc 4.4702 and the deutschemark 1.9350. Yesterday the Federal Reserve bought \$48mn. for deutschemarks and \$50mn. for yen. Today the dollar received no support in Europe. EMS was fully-stretched at times, the Belgians selling \$4mn.-worth of French francs at the margin to protect their franc (31.14). The lira (921.50) slipped to 4% distance from the French franc and the Italians gave out \$58mn. in support. The Irish, too, sold \$7mn. The yen continued wanted. The Bank of Japan bought \$113mn. in New York yesterday and \$285mn. this morning in Tokyo where the yen closed at 199.60. In London it finished little changed at 199.62.

Despite the weaker dollar gold failed to hold any level above \$600. Both fixings set a level of \$599.25. New York then tried again to consolidate above \$600 but by the close the metal was offered again down to \$597.

Operations:	Market	+	\$44mn.
	Netherlands	+	14
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		+	\$58mn.
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The reserves have also gained from an allocation of SDR worth \$373mn.

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