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SECRET

THE DEPUTY GOVERNOR

GOLD AND FOREIGN EXCHANGE MARKETS

Wednesday 7 January 1981

Sterling enjoyed a quieter day and, apart from a brief display of strength this morning, tended easier as the dollar - and U.S. interest rates - recouped yesterday's losses. With other currencies moving in concert with the pound, the ERI closed unchanged at 79.0.

The pound closed lower at 2.4187 yesterday in New York, where the dollar was already hardening. Despite the further reduction in a major bank's prime rate, the debt markets were soured when the Federal Reserve chose to provide funds only through the customer repurchase facility. This morning sterling opened at 2.4132. The dollar was a good deal firmer but failed to hold opening levels. Nonetheless the pound proved a little soft at first and 2.4120 was touched. Later, however, some good demand was seen from the Middle East - perhaps associated with the new tap stock - and sterling was traded up to 2.4220 before settling around 2.42. This afternoon, the dollar's recovery was resumed as conditions in New York remained tight. Sterling saw only modest two-way business and was marked back to close at 2.4168. Three month eurodollars were better bid by nearly 1/2%. Sterling's three-month premium widened only to 2 3/4% p.a, however, so that the covered differential in London's favour fell to 1/4%.

The pound lost a fraction in Germany (4.68 3/4), was a touch better in France (10.84 3/4) and gained 1/4% in Switzerland (4.24 3/8). The dollar closed stronger in all these countries at 1.9398, 4.4885 and 1.7560 respectively. EMS was well stretched again, the Belgians selling French francs worth \$3 mn. at the margin to protect their franc (31.21). The lira (922.60) finished only 3 3/4% distant from the French franc after sales of \$100 mn. by the Bank of Italy. The Irish, however, recouped \$11 mn. Elsewhere the Swedes spent \$74 mn. but the Japanese took in \$73 mn. (in addition to a further \$26 mn. bought in New York yesterday). The yen eased to 201.25 in Tokyo - on news of possible developments in Iran over the American hostages - before recovering to 200.45 in London.

Gold was weak, initially on the Iranian rumours; but later in response to the trend in U.S. interest rates. Fixings were \$588.75 and \$585 and New York took the metal down to \$575 by the close.

Operations:	Market	+ \$14 mn.
	British Rail+ 11	
	(PSB G'teed)	
	Ghana	- 6
	Sundries	+ 4
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		+ \$23 mn.
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