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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 8th January 1981

The Federal Reserve's pointed draining of liquidity in the Open Market yesterday (with Funds at 18 $\frac{1}{2}$ %) and Volcker's strong statement to the Banking Committee sent the dollar a good deal firmer today. Sterling was generally quiet and, where traded, tended offered but the continuing presence of foreign official demand ensured gains for the pound over the Continental currencies and an unchanged ERI at 79.0.

The pound closed at 2.4055 yesterday in New York where the dollar was very much firmer. This morning sterling opened at 2.4053 and, despite a further strengthening of the dollar, traded in a narrow range through the morning, touching 2.4065 at best. This afternoon a few sellers were evident and the pound retreated to 2.3985 but the ever-present Middle East interest, coupled now with further Central Bank demand for pounds against Swiss francs, quickly restored the rate to a closing level of 2.4020. Three-month eurodollars were around  $\frac{1}{2}$ % harder but sterling's forward premium widened only to 3 $\frac{1}{2}$ % p.a. The intrinsic premium thus fell again to 3/16%.

The pound gained  $\frac{1}{8}$ % in each of Zurich (4.26%), Paris (10.91%) and Frankfurt (4.71%). The dollar appreciated in these centres by over 1% to 1.7770, 4.5445 and 1.9626 respectively. EMS was relaxed, the lira (932.40) and Belgian franc (31.55) respectively closing 3 9/16% and 1 15/16% distant from the French franc. The Italians sold \$100 mn., the Irish \$25 mn. and the Swedes \$66 mn. In Tokyo the Japanese bought \$25 mn. holding the yen above 200. It closed there at 200.40 and eased in London to 201.17.

Gold remained weak but was steadier today around yesterday's lower levels. Fixings were \$573.75 and \$574.75.

Operations:	Market	-	\$8 mn.
	Interest	+	19
	Crown Agents	+	5
	Sundries	+	1
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		+	\$17 mn.
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*Jm*  
8th January 1980  
J.G.H.