

FE 440.07

GPS

Copies to: Mr. Loehnis  
Mr. SangsterFOREIGN EXCHANGE AND GOLD MARKETS29th December - 13th January

With the arrival of the New Year markets became deeper and the level of activity increased. Sterling came into strong demand, particularly on official account from both OPEC countries and European central banks, reaching its highest levels for two months. After opening at 2.3825 a little commercial buying took the rate to 2.3920 at the close on 31st December. As a very large Middle East order hit the market in the first week of the year, the rate moved up against an easier dollar to touch 2.4335 on 6th January (when we bought \$44mn.). Although the rate thereafter eased back to trade actively in the 2.38-2.42 range, the dollar was generally very much firmer and sterling moved to its highest level for over four years against the major Continental currencies. The rate ended the period at 2.3874 with the ERI at 79,3.

Although the money supply showed sharp declines (averaging \$2.4bn. in M1A) in each of the last two weeks and prime rates moved down in stages to 20%, the Fed kept funds very tight in the domestic market and Volcker, speaking to Congress on 7th January, emphasised that there would be no relaxation of the Fed's monetary growth targets. The dollar weakened initially as rates fell but ended very firm, only 1½% below its recent two-year highs in Europe. The yen continued in strong demand for investment purposes but its rise was contained to 2% over the period by heavy intervention by the Bank of Japan. EMS was relaxed with the Belgian franc at the bottom of the narrower band, 2½% below the French franc at the top.

High interest rates and rising hopes for the release of the US hostages in Iran made for a weak gold market. The price fell steadily from the \$600 level to fix at \$562½ on Tuesday afternoon.

13th January 1981

TRS

Main Exchange Rates

	<u>24th December</u>	<u>13th January</u>
	(close)	(close)
\$		
£	2.3775	2.3874
DM	1.9425	2.0012
SF	1.7650	1.8117
FF	4.5030	4.6317
Yen	207.65	203.37

<u>£</u>		
DM	4.61 $\frac{1}{2}$	4.77 $\frac{1}{2}$
SF	4.19 $\frac{1}{2}$	4.32 $\frac{1}{2}$
FF	10.70 $\frac{1}{2}$	11.05 $\frac{1}{2}$
£ effective	77.9	79.3
Gold	\$593.75	\$562.75

Intervention abroad (main items)

	(29/12 - 13/1)	\$mns.
Japan	+ 1,388	
Italy	- 812	
Sweden	- 278	
Canada	+ 100	
USA	- 57	

EEA Transactions

In December the reserves fell by \$713mn. after net public sector debt and Government debt repayment of \$751mn. The overbought forward position was reduced by \$35mn. to \$1,592mn.

Operations for January +\$560 (o/w market +76 and new PS borrowing +92).

The increase in the spot reserves so far this month is \$1,004mn. (of which half is due to maturing forwards).