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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 13th January 1981

The dollar made sizeable gains overnight in New York where the Fed yesterday allowed Fed Funds to move to the 20% level without acting to supply liquidity. Euro-dollar rates accordingly rose this morning and the dollar was very firm. Sterling was also strong on the back of heavy official demand and new highs were established against some of the Continental currencies. The ERI was unchanged at 79.3.

The pound lost half a cent in New York last night to close at 2.3965 but the dollar was generally much stronger. This morning sterling opened almost a cent lower at 2.3867 and, after touching 2.3905 on the early exchanges, settled to trade in the 2.38½-2.39 range against an improving dollar. During the morning large OPEC and European central bank buying interest was seen and small amounts of professional selling were easily absorbed. As Euro-dollar rates turned down and the dollar eased in advance of the New York opening the rate rose briefly to touch 2.3915. The movement was, however, short-lived and as Euro-dollar rates resumed their upward path, the rate returned to its former range, easing to 2.3850 a little before the close was taken at 2.3874. Euro-dollar rates rose 1% over the day, three-month deposits closing at 17 15/16%. Sterling's forward premium widened by a little under 1%, to 4 11/16% and interest parity prevailed.

The pound gained ¾% in Switzerland to 4.32½ (a three-and-a-half year high) and ¾% in both Germany, to 4.77½, and in France to 11.05½ (four-and-a-half and six year highs respectively). An all-time record was established in Italy (2271). The dollar closed only a little below its recent two-year highs on the Continent, at 1.8117 in Zurich, 2.0012 in Germany and 4.6317 in France. The Fed yesterday bought \$85mn.-worth of deutschemark. EMS was again tranquil with the Belgian franc (32.19) and the lira (951.25) closing 2¼% and 3 11/16% respectively below the French franc without any intervention necessary. Elsewhere, the Swedes sold \$29mn. The yen closed at 204.65 in Tokyo and 203.37 in London.

Gold was subdued, with rising interest rates preventing any recovery in the price. Fixings were at \$566 and \$562.75.

Operations:	Market	+ \$14
	BIS (o/a Nigeria)	+ 100
	France (o/a Nigeria)	+ 96
	Switzerland	+ 43
	IMF (SDR Allocation)	+ 18
	Bangladesh	- 12
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		+ \$259mn.
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