

THE DEPUTY GOVERNOR.

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 15th January 1981

Another very stable day on the exchanges. The continued high level of Fed Funds in New York, coupled with fears that the money supply figures to be announced this Friday will show a very large increase in the aggregates caused the dollar to strengthen throughout the day. Sterling was extremely firm, establishing new benchmark levels on the Continent. The ERI rose 0.3 to 79.7.

Sterling rose overnight in New York where it closed at 2.40. This morning it opened a little lower against a rather stronger dollar at 2.3983 and, although it moved down to touch 2.3972 in early business, soon settled to trade around the 2.40 level until noon. Some professional buying interest was seen from banks both in London and on the Continent but commercial business was fairly light. As Euro-dollar rates dipped temporarily after the New York opening the rate moved up to 2.4060 before easing back to close very firm at 2.4033. Later, following a Dow Jones report that German reserves would continue to decline during 1981, the dollar strengthened further and sterling was quoted down to 2.3940. Sterling's forward premium narrowed to 4 5/16% but with three-month Euro-dollars 1/16% easier and sterling inter-bank rates a little firmer, the intrinsic discount narrowed to 1/8%.

The pound moved to new highs on the Continent rising 5/8% in Germany to 4.80 3/8 (a 4 1/2-year high), 3/4% in Switzerland to 4.35 3/4 (a 3 1/2-year high) and 3/4% also in France to 11.12 (a 6-year high). A new all-time high of 2,284 was established in Italy. The dollar too closed firmer in the major Continental centres, at 1.9988 in Frankfurt (later 2.0105), 1.8132 in Switzerland (later 1.8255) and 4.6270 in Paris (later 4.6425). There was little change in the EMS where the Belgian franc (32.15) remained 2 1/16% below the French franc, although the lira (950.45) narrowed the gap to 3 11/16% after sales of \$112 mn. The Danes sold \$5 mn. and the Irish bought \$12 mn. Elsewhere the Swedes also sold \$112 mn. The Tokyo market was closed today (for adults day) but the yen closed at 201.75 in London.

Gold staged a minor recovery, helped by some commission house buying and short covering from New York. Fixings were at \$566.75 and \$571.50.

Operations:	Market	+ \$14 mn.
	India	+ 12
	Sundries	+ 6
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		+ \$32 mn.
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