

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 16th January 1981

The dollar made further great strides today, fortified now by the surprising strength in the US index of Industrial Production announced yesterday. Sterling, however, remained very firm in the face of fresh investment demand. New recent peaks were scaled across the Continent and the ERI rose to 80.0.

The pound closed at 2.39 yesterday in New York where the dollar closed sharply firmer in the wake of the Industrial Production index. This morning the dollar consolidated those gains although, as often, it was not until New York returned that further advances were made. Sterling opened uncertainly at 2.3930 - its low for the day - but showed little inclination to advance very far on the early exchanges. By mid-morning, however, the dollar was off its best and the pound had moved ahead to 2.3975. A large Swiss buying order - probably on Middle East account - then began to have an impact and the rate was pushed up to 2.4025 by early afternoon. Returning Americans, however, again bid for dollars, with increasing signs of a solution to the Iranian conflict providing added impetus. Sterling was marked back to close at 2.3985. Sterling's three-month forward premium was 4 11/16% p.a. and interest parity prevailed on the usual comparison.

The pound gained a further 3/8% in Paris (11.19 1/2), 3/8% in Frankfurt (4.84) and 1% in Zurich (4.40). Earlier in the day new recent high levels were established in all Continental centres. Yesterday the Federal Reserve sold \$98mn. for deutschemarks but today only the Swedes were active, selling \$195mn. in support of their krona. EMS tightened a little to 2 3/8% in width between the French franc and Belgian franc (32.45). The lira (958 1/2) was 3 3/8% distant. The yen was relatively steady, closing at 203.20 in Tokyo and 202.82 in London.

Gold continued to weaken on developments in the Iranian situation. Fixings were \$562.75 and \$560.75.

Operations:	Market	+	\$7mn.
	British Air		
	(PSB G'teed)	+	50
	Interest	+	6
	Sundries	+	3
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		+	\$66mn.
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*Jr* 16th January 1981.

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