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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th January 1981

All eyes were on Iran today as markets awaited news of the release of the hostages by Tehran. Trading was erratic and nervous, with the dollar weakening a little over the day as dealers, concerned about Iran's attitude towards the dollar after the return of assets, sought to reduce long dollar positions. Sterling encountered widespread commercial demand during the morning and the ERI moved up a further 0.1 to 80.1 (after 80.2 at noon).

Sterling closed steady at 2.3960 against a slightly weaker dollar in New York on Friday night. The dollar's softness was a little surprising in view of the large increases in the money supply (M1A + \$1.6bn, M1B + \$11.4bn) announced shortly before the close. This morning sterling opened at 2.3995 (the low for the day) and immediately started to firm as the dollar gave ground. The rate rose steadily on the back of widespread commercial demand to touch 2.4175 shortly before noon. None of the individual buying orders was particularly large but there was a general absence of selling. During the afternoon, in a much quieter market, sterling eased back against a rather stronger dollar to close at 2.4110. Euro-dollar rates were unchanged from Friday but with sterling's forward premium widening to 4 13/16%, there was an intrinsic premium of 1/2 in favour of sterling.

The pound lost a little ground on the continent, closing at 4.82 1/2 in Germany, 4.39 1/2 in Switzerland and 11.16 1/2 in France. The dollar, too, was easier in all these centres, closing at 2.0029 in Frankfurt, 1.8215 in Zurich and 4.6327 in Paris. Intervention was very limited: on Friday the Fed bought \$16mn. against marks and today the Swedes sold \$96mn. In the EMS, the Belgian franc (32.24) closed 2 1/4% below the French franc and the lira (951.50) was 3 3/4%, adrift. The yen firmed a little, closing at 202.80 in Tokyo and 201.87 in London.

Although gold weakened a little further at a morning fixing, to \$558.75, there was some modest buying interest in the afternoon when the price rose to \$566.75.

Operations:	Market	+	\$24mn.
	Interest	+	8
	Crown Agents	+	6
	Sundries	+	9
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		+	\$47mn.
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Overnight + \$6mn

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