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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 20th January 1981

Another active and volatile day on the exchanges with markets anxiously awaiting the latest news from Iran. The dollar weakened overnight in New York where there was a hitch in the arrangements to release the hostages and the Fed also intervened to supply liquidity to the domestic banking system. Today it opened at its lows and firmed over the day as Euro-dollar rates returned to yesterday's levels. The removal of the last obstacles to the release of the hostages added to the stronger tone, although dealers remained concerned about Iran's future intentions towards the dollar. Sterling was again in strong demand, particularly during the morning. New highs were established against the Continental currencies and the ERI rose a further 0.1 to 80.2.

Sterling closed little changed last night in New York at 2.4105 but buying in the Far East this morning took it to 2.4242 against a much weaker dollar by the London opening. From the start widespread buying interest was seen, particularly from the major Swiss banks, but after touching 2.4245 shortly before 9 a.m. the rate started to give ground against a rapidly improving dollar. As early profits were taken the rate fell back to 2.4080 in mid-morning but a second round of buying carried it back to 2.4115 by noon. In contrast to the morning, the afternoon was relatively quiet with the rate trading fairly narrowly between 2.41 and 2.41½ before the close was struck at 2.4140. Three-month Euro-dollars ended the day ½% easier and with sterling's forward premium narrowing to 4½% London's intrinsic premium remained at ½%.

The pound rose in Europe, moving to new benchmark levels in the main centres. Gains in Germany and France amounted to ⅜%, the pound closing at 4.84½ and 11.21 respectively, with a rather more modest ¼% rise in Switzerland to 4.41½. The dollar, too, improved in all these centres, closing at 2.0070, 4.6437 and 1.8275. There was little pressure in the EMS where the Belgian franc (32.31) moved to 2 3/16% below the French franc and the lira (954.05) improved to 3 11/16% below after sales of \$27mn. The only sizeable intervention was by Sweden who sold a further \$176mn. and sought to staunch the haemorrhage of dollars by raising the discount rate by 2% to a record 12%. The yen moved fairly narrowly closing at 201.55 in Tokyo and 201.12 in London.

Gold was very steady with participants unwilling to commit themselves until the course of events in Iran became clearer. Fixings were at \$563½ and \$562.

Operations:	Market	+ \$5mn.
	BIS	+ 48
	France	+ 12
	Edinburgh Council	+ 9
	(PSB G'teed)	
	IDA	+ 5
	Sundries	+ 2
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		+ \$81mn.

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