

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 21st January 1981

An active but altogether more stable day on the exchanges. With the hostages issue triumphantly resolved, markets were able to return to their more normal pre-occupation with interest rates. The dollar weakened sharply overnight in New York where Federal Funds, which for the past few weeks had been held around the 19½%-20% level, traded down to 12% as the recycled Iranian funds increased liquidity. Euro-dollar rates accordingly opened lower this morning and the dollar traded narrowly around its soft opening levels all day. There was a good two-way market in sterling. The ERI was unchanged at 80.2 (after 80.3 at the opening).

Sterling gained over a cent last night in New York, closing against a weaker dollar at 2.4260. This morning it opened at 2.4270 and moved up quickly in early business to touch 2.4330. Widespread buying by European banks was again seen, with the Germans rather more prominent today than the Swiss. At the higher levels some commercial selling was encountered and as the dollar firmed a little the rate dropped back to trade actively around the 2.42½ level. As so often, the afternoon was a rather quiet session and the rate held extremely steady, closing at 2.4260. Three-month Euro-dollars ended the day ½% easier but with sterling's forward premium narrowing to 3% there was a covered differential of 1/16% in favour of London.

The pound closed a little below yesterday's highs on the Continent, ending at 4.83 in Germany, 4.38½ in Switzerland and 11.16½ in France. The dollar was a little firmer in all these centres closing at 1.9907, 1.8090 and 4.6022 respectively. Yesterday the Fed bought \$15mn. against marks. In the EMS the Belgian franc (32.01) closed 2½% below the French franc, with the lira (946.55) 3 13/16% adrift after sales of \$73mn. The Irish sold \$21mn. Despite yesterday's increase in discount rate the Swedes provided a further \$58mn. by way of support for the crown. The yen again breached the 200 barrier, closing at 199.85 in Tokyo and 199.12 in London. Yesterday the Bank of Japan bought \$96mn. in New York and this morning a further \$26mn. in Tokyo.

With the release of the hostages probably largely discounted, the gold price moved ahead rather tentatively as US interest rates declined. Fixings were at \$576 and \$578.

Operations:	Market	+	\$14mn.
	BIS	+	36
	Interest	+	12
	Germany	+	5
	India	+	5
	Sundries	+	5
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		+	\$78mn.
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