

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 23rd January 1981

Today was very quiet. The dollar strengthened in New York last night where Federal Funds returned to the 19% level. A report that Henry Kaufman saw US interest rates surpassing previous highs during the year also helped the firmer tone. Today sterling remained steady while the dollar strengthened and the ERI rose a further 0.1 to equal, for the first time at the close, the record 80.4 level.

Sterling closed slightly higher in New York last night at 2.4135 against a rather stronger dollar. This morning some selling in the Far East had taken it back to 2.4085 by the London opening and the rate continued to drift down in early business under pressure of some selling from Switzerland to touch 2.4035. After this early activity had evaporated, the rate settled at the 2.40½ level remaining there for the balance of the day, while the dollar firmed gradually in a quiet market. The rate ended the day at 2.4073. Three-month Euro-dollars rose ¼% over the day but with sterling's forward premium widening by ¼% to 4 9/16% the covered differential against London narrowed to ¼%.

Sterling again recorded new highs on the Continent, rising ¼% in Germany to 4.88½, ¼% in France to 11.27½ and rather less in Switzerland to 4.41½. The dollar, too, was firmer in all these centres, closing at 2.0290, 4.6820 and 1.8340 respectively. Yesterday the Fed sold \$50mn. against deutschemarks. Today the only intervention was by the Swedes who sold \$95mn. EMS was unchanged, with the Belgian franc (32.57) 2¼% below the French franc and the lira (961.75) 3 11/16% below. The yen lost a little ground, closing at 201.50 in Tokyo and 202.12 in London.

Higher Euro-dollar rates and Kaufman's gloomy remarks about the future depressed the gold price which slipped briefly below the \$550 level. Fixings were at \$552 and \$553.

Operations:	Market	+	\$7mn.
	Iran	+	20
	Sundries	+	9
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		+	\$36mn.
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	Overnight	+	\$12mn.
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TRS