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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 27th January 1981

The dollar had an uneven day before finishing very strongly. At first it benefited from a deutschemark suffering in the shadows of Poland's industrial unrest; then profit-taking reversed its fortunes; finally, it received a boost from reports of the imminent removal of oil price controls in the USA and of Treasury Secretary Regan's economic recovery plan. Sterling stayed very much on the sidelines. The ERI closed at 81.2 after a record 81.4 at the opening.

In New York last night the pound closed at 2.4240 but the early strength of the dollar in the Far East induced an opening level in London of 2.4162. There was little activity this morning, though 2.4115 was reached; as the dollar passed through its weakest stage in mid-afternoon sterling rallied to 2.4205 before yielding as the dollar again turned, to close at 2.4121. Forward margins and interest rates were fairly steady and by the close the covered comparison was at parity.

Sterling became yet more expensive in Europe, rising to 4.98½ in Germany, 11.48½ in France and 4.50½ in Switzerland - roughly ¼% up; last night in New York it reached 4.99½ in deutschemark terms. The Fed sold \$85mn. in their market yesterday and a further \$20mn. through the Bundesbank today; the Bundesbank sold \$54mn. for their own account. However, their currency shed 1% to end at 2.06½ (after 2.0482 in mid-afternoon). Later, it broke through 2.07. EMS remained 2½% wide between the Belgian (33.10) and French (4.7612) francs. The Swedes had another bad day, losing \$236mn. to bring their total for this month to nearly \$1.6bn. The Swiss franc eased to 1.8652. The yen closed at 202½ in Tokyo, 202½ in London.

Gold reacted nervously to the dollar's fortunes. It weakened in the Far East and fixed this morning in London at \$517. It rallied long enough to fix later at \$524 but subsequently eased to around the morning level.

Operations:	Market	+	\$16mn.
	Bangladesh	-	12
	Sundries	+	4
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		+	<u>\$8mn.</u>

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