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SECRET

THE DEPUTY GOVERNOR

Thursday, 29th January 1981  
FOREIGN EXCHANGE AND GOLD MARKETS

The dollar recorded further substantial gains against most currencies and caused considerable defensive activity by European central banks. Sterling remained in the wings and the ERI fell to 81.4.

The pound closed at 2.41 in New York last night. Having opened at 2.4047 in London today it fluctuated quietly between 2.4075 and 2.4015 this morning, easing to 2.3985 at the close, after 2.3972. Sterling's forward premium narrowed a touch to 4% p.a. Eurodollars fell back, to close at 17 $\frac{3}{8}$ % for 3 months but sterling interbank also eased and an intrinsic premium of 3/16% developed in London's favour.

Against the deutschemark the pound rose under  $\frac{1}{8}$ % to 5.02 $\frac{1}{2}$ ; it eased to 11.56 $\frac{3}{8}$  in France but surged to 4.55 $\frac{1}{2}$  in Switzerland. But the real activity was in dollars, against whose advance the Germans spent \$134 mn. (of which \$80 mn. for Fed account) and \$54 mn. in French francs. They could not, however, prevent the deutschemark from declining to 2.0940 nor from ousting the Belgian franc from the weakest position in EMS, 2 $\frac{1}{8}$ % below the French (4.8210). The Bank of France bought deutschemarks worth \$118 mn. and Belgian francs worth \$17 mn.; the Belgians sold French francs equivalent \$145 mn. The lira slipped to 992.15 after the loss of \$188 mn. The Swiss franc closed at 1.8992, the yen at 204.40 (203.80 in Tokyo).

Gold was disheartened by Mr. Schultz' remarks yesterday and declined to \$505 this morning. Persistent offering later took the price through \$500 to fix this afternoon at \$493.75.

Operations:	Market	+ \$5 mn.
	Interest	+ 36
	Government	+ 16
	(cancelled	'
	requirement)	
	Iran	+ 15
	Sundries	+ 3
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		+ \$75 mn. (of which + \$18 mn.
		for January)

29th January 1981 *dhb*  
D.A.H.B.