

THE DEPUTY GOVERNOR.

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 30th January 1981

The dollar carried all before it today in a remarkable show of strength, given that interest rates were steady to a touch easier. The deutschemerk remained particularly weak on fears of a deterioration in the situation in Poland. Sterling, after a steady start, was sold from Chicago this afternoon and the ERI fell to 81.1. (On the new index, to be published from Monday, this was equivalent to 105.2.)

The pound closed at 2.3940 in New York yesterday and, having opened this morning at 2.3922, traded up to 2.3955 on the early exchanges. Dealers were wary of trading sterling either way but, with the dollar considerably stronger, a single Swiss seller sufficed to drive the pound down very quickly to 2.3805 before any support was found. This afternoon Americans were keen to push the dollar higher and sterling was again sold at the opening in New York. Further offering from the Chicago IMM saw business down to 2.3650 before profit-taking in the dollar brought a late recovery to 2.3755. Dollar and sterling deposits finished a touch easier. Sterling's three-month premium was 3 13/16% p.a. and the covered differential was 1/16% in London's favour.

The pound again set new benchmark levels on the Continent gaining 1/8% in Germany (5.02%) and 1/4% in both France (11.59%) and Switzerland (4.56%). The Swiss franc (1.9235 after 1.9325) was notably soft following a large selling order and eased to 0.90% to the DM. The Swiss sold \$50 mn. in support. The deutschemerk closed at 2.1172 (after 2.1235) - over 1% weaker again - and the Bundesbank sold \$136 mn. (of which \$80 mn. for the Federal Reserve). The Americans themselves sold \$81 mn. for deutschemarks yesterday and were operating from an early hour this afternoon. EMS closed fully stretched. The Belgain franc (33.97) replaced the deutschemerk at the bottom of the band, the Belgains selling \$2 mn.-worth of French francs. The French bought deutschemarks worth \$57 mn. Their franc closed at -74 on the index of divergence. The lira passed the 1,000 mark for the first time, closing at 1,001.50, and was 3 9/16% distant from the Franch franc. The Italians sold \$71 mn. but took in \$12 mn. of deutschemarks. The Irish, too, sold \$11 mn. Elsewhere the Swedes lost a modest \$26 mn. and the yen weakened sharply, to 205.20 in Tokyo and 206.05 in London.

After touching \$486 in New York yesterday, gold rallied strongly to close there at \$517. The Polish situation provoked short-covering. This morning Far Eastern markets sold the metal down to \$505 again and London managed to maintain that level throughout the day. Fixings were \$507.50 and \$506.50.

Operations:	Market	- \$6 mn.
	National Coal Board	
	(PSB G'teed)	+100
	Iran	+ 10
	IDA	+ 6
	Greece	- 18
	Sundries	+ 2
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		+ \$94 mn.

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The result for January was a reserve increase of \$918 mn. after net new public sector borrowing of \$49 mn. and an IMF repurchase of \$78 mn. under the oil facility. The reserves gained \$373 mn. from an allocation of SDR and \$266 mn. as a result of the extension of the ECU swap with the EMCF. The overbought forward position fell by \$37 mn. to \$1,555 mn.