

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd February 1981

After an uncertain start, the dollar resumed its assault on recently untrodden peaks. Sterling, however, was sold down on increasing expectations of a reduction in MLR. The ERI fell from 105.2 to 104.0 (on the old index, this was a decline from 81.1 to 80.2)

The pound closed at 2.3590 on Friday in New York where the dollar finished on a very strong note. This morning, however, the dollar was sharply easier in response to the latest declines in the US monetary aggregates and the subsequent easing in Euro-dollar deposit rates. Sterling opened at 2.3815 and touched 2.3830 on the early exchanges. Selling soon developed out of Switzerland and the pound shed two cents in very short order. Only a large buying order in Hong Kong prevented an even greater decline in the rate. Later the dollar resumed its upward trend. Sterling at first improved but later reverted to find a level around 2.36. US operators returned to buy dollars on a broad front. The pound was not especially singled out but it declined further nonetheless and some small German offerings late in the day took the rate to 2.3470 before the close came at 2.35. The three-month forward premium narrowed slightly to 3 11/16% p.a. but with dollar deposits easing rather more than sterling deposits, the intrinsic premium rose to 5/16%.

The pound lost 3/8% in Germany (4.98%), 1/8% in France (11.50%) and over 1% in Switzerland (4.52%). The Swiss franc was bolstered by a 1/2% increase in Discount and Lombard Rates (to 3 1/2% and 4 1/2% respectively) and closed barely changed on the dollar at 1.9233. The deutschemark eased to 2.1227. On Friday the Federal Reserve sold \$80mn. for deutschemark. EMS was a little more relaxed with the Belgian franc (34.04) 2 3/16% distant from the French franc (4.8937) and the lira (1005), aided by the weekend package of credit curbs, a steady 3 1/8% adrift. The Belgians and Germans each sold French francs worth \$26mn. and \$12mn. respectively. The French bought \$7mn.-worth of deutschemark. Elsewhere, the Norwegians spent \$33mn. but the Swedes recouped \$30mn. The yen recovered to 203.30 in Tokyo and 203.36 in London.

Gold was again sold and passed the day uncomfortably testing its recent low levels. Fixings were \$493.25 and \$493.50.

Operations:	Iran	+	\$15mn.
	BIS	+	5
	Sundries	+	8
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		+	\$28mn.

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