

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 3rd February 1981

The flow of funds out of the Continental currencies, particularly the deutschemmark, into the dollar continued today, encouraged by Euro-dollar rates which moved sharply higher, despite further prime rate cuts to 19½%, and growing concerns over Poland. The dollar moved to new highs during the day but these were subsequently largely surrendered in late business. Sterling fell back as the dollar advanced but it remained firm, supported by sizeable commercial demand. The ERI rose 0.2 to 104.2 (80.3 on the old index, up 0.1).

After closing fairly steady last night in New York at 2.3455, sterling weakened sharply in the Far East this morning as the dollar strengthened generally, opening at 2.3297 in London. As the dollar firmed further in Europe, on the back of higher interest rates, sterling initially gave ground, falling to 2.3245 about 9 a.m. on some professional selling. However, at the lower levels widespread commercial demand emerged and although none of the individual orders was particularly large, they were sufficient to encourage some hasty short covering by professional operators. This enabled the rate to consolidate and it established a trading range between 2.33 and 2.34 for the rest of the day before the close at 2.3355. After the close, as rumours circulate of the imminent introduction of a package of measures to support the mark, the dollar weakened sharply and sterling was quoted up to 2.3520. Three-month Euro-dollars closed ½% up on the day at 17 5/16%. With sterling's forward premium widening to 4 3/16%, the covered differential in favour of London narrowed slightly to ¼%.

The pound gained ¾% in Germany to 5.02½ and ¾% in France (11.57½) and Switzerland (4.55), levels only marginally below recent highs. The dollar, too, firmed in all these centres, closing at 2.1515 in Frankfurt (after 2.1625), 4.9575 in Paris and 1.9480 in Zurich. In late business, however, the respective rates were 2.1335, 4.9125 and 1.9365. Support for the deutschemmark was on a larger scale than for some time: yesterday the Fed sold \$53 mn. against purchases of marks and today the Bundesbank sold \$270 mn. for their own account and a further \$80 mn. for the Fed. EMS closed fully stretched with the Belgian franc (34.51) 2 5/16% below the French franc, with the lira (1018.75) 3¼% adrift. The Belgians sold \$19 mn.-worth of French franc and the French bought \$29 mn.-worth of deutschemarks. Elsewhere the Swedes were able to buy \$128 mn. The yen weakened in the Far East this morning where it closed at 205.15 but firmed a little in London to 204.55.

The rise in US interest rates sparked off further liquidation of gold positions, with both Middle Eastern and commission house selling seen. Fixings were at \$482 and \$486.25 but after the dollar weakened the price was quoted up to \$495 in late business.

Operations:	Iran	+ \$10 mn.
	Ghana	- 7
	Sundries	- 1
		=====
		+ \$2 mn.

3rd February 1981.
T.R.S.