

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 4th February 1981

A fairly quiet day on the exchanges saw the dollar give up yesterday's gains. Sterling gained against the dollar but lost ground on the Continent. The ERI fell to 104.1 (80.3 on the old basis).

Most of the reaction in the dollar took place in New York yesterday, when the market was beset by rumours of an imminent package to support the deutschemark. Sterling touched 2.3610 before closing there two cents firmer at 2.3555. This morning eurodollars opened better bid and the dollar began on a firmer note. The pound started at 2.3447, touched 2.3420 on the early exchanges, then advanced to around 2.35, establishing a trading range which persisted for much of the day. Towards the close some weakening in the dollar carried sterling up to 2.3540 before the close came at 2.3535. Sterling's three-month forward premium widened to  $4\frac{1}{2}\%$  pa as eurodollars firmed and sterling deposits eased. The intrinsic premium was unchanged at  $\frac{1}{2}\%$ .

The pound gave up  $\frac{3}{8}\%$  in Germany (4.99 $\frac{3}{8}$ ) and  $\frac{3}{8}\%$  in both Franc (11.49 $\frac{3}{8}$ ) and Switzerland (4.51 $\frac{3}{8}$ ). The dollar eased in these centres to 2.1205 4.8825 and 1.9192 respectively. Yesterday the New York market was somewhat chaotic and the Federal Reserve, having sold \$63mn for deutschemark, later bought back \$30mn. Today the Bundesbank sold \$37mn. EMS was fully-stretched with the deutschemark eventually replacing the Belgian franc (33.97) at the tail end. The Belgians sold \$61mn of French francs; the French bought \$29mn of Belgian franc and \$5mn of deutschemarks. The French franc finished at -73 on the index of divergence. The lira (1006) was 4% distant from the French franc after purchases of \$32mn by the Italians. The Danes, too, bought \$3mn. The yen closed at 204.50 in Tokyo and 203.05 in London.

Gold staged a strong technical recovery. Fixings were \$504.25 and \$505 and the metal traded up to \$510 in the interim.

Operations:	Market	+ \$4 mn.
	Iran	+ 20
	Sundries	+ 23
		<u>+ \$47 mn.</u>

*JGH*  
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