

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 6th February 1981

The dollar began with another surge, following President Reagan's policy outlines delivered yesterday, but was stopped in its tracks by a massive liquidity squeeze which the Bundesbank imposed in Frankfurt. This in turn imposed some strains on EMS, as the French franc was bid up to keep pace with the deutschemerk, and the net result was a generally weaker dollar. Sterling stayed aloof from all this activity but lost ground on the Continent in the process. The ERI fell to 103.8.

The pound closed at 2.3320 in New York yesterday where the dollar gained over 1% across the board. This morning sterling opened at 2.3305 and showed no early trend. Modest two-way business was seen but only when the Bundesbank intervened to halt the dollar's advance did sterling move ahead, climbing with little enthusiasm to 2.3385 at best. This afternoon the dollar staged a partial rally. The pound was marked back to 2.3245 before a late recovery to 2.3312. Three-month Euro-dollars closed nearly $\frac{1}{2}$ % better bid. The three-months' forward premium widening to 4 $\frac{5}{16}$ % p.a. and, with sterling deposits a little firmer, the covered differential remained at 3/16% in London's favour.

The pound lost $\frac{1}{2}$ % in both Zurich (4.52 $\frac{1}{2}$) and Frankfurt (4.99 $\frac{1}{2}$) but only $\frac{1}{4}$ % in Paris (11.51 $\frac{1}{2}$). The dollar closed marginally firmer in these centres, even after the substantial losses sustained during European hours. The deutschemerk was 2.1440 (after 2.1680 and 2.1380). The Swiss franc closed at 1.9410 (after 1.9595 and 1.9390). The Federal Reserve sold \$180mn. yesterday for deutschemarks. The Bundesbank today sold \$116mn. and swapped out \$1,843mn. in very aggressive fashion. EMS finished more than fully-stretched between the French franc (4.9402) and Belgian franc (34.46). The Belgians and Germans each sold French francs worth \$46mn. and \$9mn. respectively. The French bought deutschemarks worth \$67mn. and Belgian francs worth \$27mn. The Italians sold \$27mn. Their lira (1016) closed 3 $\frac{1}{2}$ % distant. The Irish, too, sold \$12mn. but the Danes bought \$10mn. The yen closed at 204.40 in Tokyo and 203.40 in London.

Gold continued to trade actively around \$500. Fixings were \$506.50 and \$500.50.

Operations:	Market	+	\$7mn.
	Iran	+	10
	IDA	+	6
	Zambia	-	5
	Sundries	+	2
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		+	\$20mn.
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