

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 10th February 1981

Although activity was generally rather muted, firmer US interest rates and another twist in the spiral of confrontation in Poland took the dollar sharply higher on the exchanges today. Sterling saw little activity and moved in a narrow range against the dollar, but gained ground on the Continent. The ERI rose 0.1 to 104.2.

Sterling closed a little lower in New York last night at 2.3390, against a slightly firmer dollar. This morning it opened at 2.3422 and as the dollar weakened briefly in early business, it was quoted up to 2.3445 before settling to trade quietly around the 2.34 level. Following a report at lunchtime that the Polish Supreme Court had ruled against the right of Polish farmers to form a trades union, the dollar moved up and sterling fell back to touch 2.3355. The announcement from Citibank that they were holding their prime unchanged at 19½% (despite Morgan Guaranty's move of yesterday to 19%) also helped the dollar and sterling ended the day comfortably at 2.3377. Euro-dollar rates closed ¼% higher and with sterling's forward premium widening to 4½%, the covered differential in favour of London was ¾%.

The pound gained ¾% in both Germany (5.02) and Switzerland (4.55½) and ¼% in France (11.58½). The dollar also strengthened in these centres, closing at 2.1477, 1.9480 and 4.9550 respectively. EMS was under little pressure during the day but closed fully stretched, with the Belgian franc (34.48) requiring support by the French to the extent of \$6mn. equivalent. The Irish sold \$7mn. and the Danes bought \$2mn. The lira (1016) remained 3½% below the French franc after sales of \$18mn. Elsewhere, the Swedes sold \$42mn. The yen closed at 203.20 in Tokyo and 203.95 in London.

Gold improved further helped by anxieties over Poland, but the higher levels were not held. Fixings were at \$517.75 and \$519.50 but the price was quoted later down to \$515.

Operations: Sundries + \$3mn.

11th February 1981.

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