

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 12th February 1981

Despite the absence of American participants (celebrating the Birthday of former President Lincoln), the exchanges propelled the dollar to levels last seen in some centres three or more years ago. The motive now was a sizeable surge in Retail Sales, purporting to show that the U.S. economy is yet quite lively. Sterling drifted lower, but again reluctantly, and new recent highs were established across the Continent. The ERI rose to 104.3.

The pound closed at 2.3345 yesterday in New York, where the dollar was already strengthening behind the announcement of the rise in retail sales. This morning sterling opened at 2.3285, touched 2.3305 on the early exchanges, then drifted idly lower through the day, hitting 2.3147 before closing at 2.3165. In a very thin twilight market, the pound was forced down to 2.31 as the dollar made further gains. Eurodollars were a touch firmer, sterling deposits slightly easier. The three month forward premium widened to 4½% p.a. and the covered differential rose to 3/16% in London's favour.

The pound gained ¼% in Paris (11.64%), ¼% in Frankfurt (5.06) and 1½% in Zurich (4.61%). After the close sterling reached 5.06½ against the deutschemark and 11.68½ against the French franc, the highest levels for nearly five and seven years respectively. The dollar finished at 1.9930 in Zurich (later 1.9945), 5.0275 in Paris (later 5.0425) and 2.1842 in Frankfurt (later 2.1880). These were the best levels for over three years in Switzerland and Germany and the highest for over seven years in France. The Swiss sold \$50mn. and the Bundesbank \$180mn. (of which \$80mn. for American account). EMS finished fully stretched between the French franc and deutschemark. The French bought \$91mn.-worth of deutschemarks and \$4mn.-worth of Belgian francs. The Belgians sold French francs worth \$56mn. and the Germans spent French francs worth \$100mn. The Danes took in \$10mn. and \$6mn. of deutschemarks. The lira fell to its cheapest level ever against the dollar (1032 and later 1033½) and pound (2393½). It finished 3½% distant from the French franc in EMS, the Italians selling \$25mn. Elsewhere the Swedes recouped a useful \$95mn. (of which \$17mn forward). The yen closed at 204.15 in Tokyo and 205.17 in London.

Gold lost ground in the Far East this morning and tended gradually softer over the rest of the day. Official support from the Middle East was suspected. Fixings were \$493.50 and \$490.25 and the metal was later traded down to \$486.50.

Operations:	Market	+	\$1mn.
	Iran	+	10
	IDA	+	7
	Sundries	+	3
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		+	\$21mn.
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