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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 13th February 1981

The flow of funds into the dollar continued today, helped by firmer Euro-dollar rates and the dollar set new highs in Europe. Although its advance was at times interrupted by determined central bank intervention, particularly by the Bundesbank at their fixing, where they sold \$165mn., the delays were only brief as it moved steadily towards higher ground. Sterling was on the sidelines during the morning, holding steady against a strengthening dollar, but sizeable selling from the US materialised during the afternoon and the rate fell back, although the pound remained very firm on the Continent. The ERI lost 0.5 to 103.8.

Sterling lost over a cent in the Far East this morning, opening at 2.3057 (the high of the day) but the rate immediately started to give ground as the dollar firmed and established a trading range between 2.29½ and 2.30. News that the annual rate of inflation had fallen to 13%, together with some modest professional demand from Europe, caused the rate to rise to 2.3045 just before noon. However, the failure of the Bundesbank to hold the deutschemark below 2.20 saw the dollar begin a new surge around lunchtime and as the US, after their absence of yesterday, also came in to buy the dollar, sterling started to fall back. Some sizeable selling was seen out of New York and by the IMM during the afternoon and the rate dipped to 2.2830 before recovering to close at 2.2895. Three-month Euro-dollars were 5/16% firmer at 18½% but sterling's forward premium widened only ¼% to 5% and the covered differential moved to 1/16% against London.

Although closing a little below yesterday's highs, sterling was nevertheless very firm on the Continent at 5.05 in Germany, 11.62½ in France and 4.59½ in Switzerland. The dollar again set new benchmark levels in all these centres, rising a further 1% against the DM to 2.2057 and closing at 5.0770 in Paris and 2.0080 in Zurich. The Bundesbank provided \$232mn. in support of the mark and considerable intervention was also necessary in the EMS where the Belgian franc (35.38) resumed its habitual place at the bottom of the narrower band just below the mark but both currencies were more than 2½% distant from the French franc. The Belgians sold \$49mn-worth of French francs, the French bought \$8mn.-worth of Belgian francs and \$16mn.-worth of DM and the Germans sold \$11mn-worth of French francs. The lira (1040.50) closed 3 7/16% adrift after sales of \$57mn. The Irish sold \$22mn. and the Danes bought \$2mn. Elsewhere, the Norwegian crown, in strong demand for oil tax payments, firmed slightly and the Swedes were able to buy \$45mn. Unusually, the yen lost ground with the Continental currencies, closing at 205.50 in Tokyo and 206.90 in London.

Given the strength of the dollar, gold showed considerable resilience, holding yesterday's levels. Fixings were at \$492.50 and \$491.50.

Operations:	Market	+	\$1mn.
	Interest	+	20
	Iran	+	13
	Sundries	+	4
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		+	\$38mn.
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