

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 16th February 1981

The dollar celebrated Washington's birthday with another show of strength which brought an uncomfortable day to EMS. Sterling met some selling on MLR comment over the weekend but was better able to resist the dollar's advance than others and indeed received a little boost from the latest trade figures. The ERI declined to 103.5, after 103.0 at the opening.

There was scarcely any movement late on Friday in New York, where the pound closed at 2.2890. The dollar began to strengthen in Far East markets this morning and sterling opened in London at 2.2722, almost immediately encountering professional selling from Switzerland which forced the rate quickly down to 2.2492. It then hovered around 2.25 until shortly after midday when it temporarily fell to 2.2480. A mild recovery then began and with the trade figures published the rally continued to a close of 2.2570, a fall of about 1½% since Friday. Forward margins moved out but not sufficiently to offset a further increase in Euro-dollar rates - to 18½% at three months - and the covered differential against London edged wider, to ½% p.a.

In terms of other European currencies the pound gained about ¾%, rising to 5.06½ in Germany, 11.71½ in France and 4.61½ in Switzerland. The dollar's own improvement was over 1½% in Germany (2.2460) and Switzerland (2.0450), and nearly 2½% in France (5.19). The pressure was felt mostly by the deutschemark and Belgian franc, although German intervention (sales of \$180mn., of which \$80mn. for the Fed) took place only in the opening hour or so. The Belgians spent French francs worth \$178mn. and the French bought Belgian currency equivalent to a further \$24mn. The two francs again spanned a fully stretched EMS, the Belgians closing at 36.17. For the Swedes it was another day to recover reserves: they bought \$115mn. The yen had a steady time, losing only ¼% in dollar terms and closing in Tokyo and London at 207.65.

Gold dipped lower this morning as buyers turned shy but was better bid later. Fixings were at \$487 and \$490.25.

Operations:	Market	+	\$16mn.
	IDA	+	12
	Iran	+	10
	Interest	+	3
	Sundries	+	6
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		+	\$47mn.
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