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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 18th February 1981

The dollar retreated further today as dealers reversed recent purchases in the face of lower interest rates and in a demonstration of nervousness about tonight's Presidential statement. Sterling, which had failed to keep pace with the advance by other currencies yesterday, improved slowly at first but in more lively mood later. The ERI fell to 102.2 after 102.0 at the opening.

The pound rose to 2.27 in New York last night. It opened, after Far East selling, at 2.2622 in London today and eased to 2.2560 before benefitting from a small buying order. It then advanced steadily through the morning in quiet trading, shrugged off rumours about the start of a national coal strike and suddenly rose to 2.2820 before closing at 2.2775. Euro-dollars were easier and closed at 17 5/16%, reflecting the firmer tone in US domestic bond markets. The covered comparison moved to 1/2% against London.

In Europe sterling again lost ground, although the worst levels of the day were left somewhat behind. It closed at 4.92 1/2 in Germany, 11.40 1/2 in France and 4.47 in Switzerland - declines of about 1%. The dollar fell by another 1 1/2%, ending the day at 2.1620 (after 2.1527) in Germany. EMS contracted and no intra-marginal intervention took place. The Italians, however, sold \$37 mn. The two francs continued to act as boundary markers, 1 1/2% apart tonight: the Belgian currency advanced to 34.75, the French to 5.00 1/2. The Swiss franc kept pace by improving to 1.96 1/2. The Swedes bought \$85 mn. The yen was quietly firmer at 206.55 in Tokyo, 205.97 in London.

Gold was wanted in London and rose in the fixings to \$502 and \$505; but in Chicago it fell back suddenly to \$498.50 later on.

Operations:	Market	+ \$3 mn.
	Iran	+ 5
	Interest	+ 5
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		+ \$13 mn.

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