

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 19th February 1981

Although the dollar again weakened in Far East markets it had made up considerable ground by noon, shortly after which it was sapped by the German and Swiss measures. There was some commercial demand at times for sterling but it was mostly on the sidelines and the ERI fell to 101.9.

A generally firmer dollar caused the pound to ease to 2.2675 in New York yesterday. It opened 5 points lower today in London. Some early buying interest caused it to rise to 2.2780 but it had settled back to around 2.27 at noon. After reaching 2.2795 this afternoon it closed a quiet day at 2.2765. Euro-dollars declined further, ending the day at 17½% for 3 months. The covered discount for sterling widened to 5/16% p.a.

In Germany the pound lost 1% to close at 4.87½; it was virtually unchanged in France (11.40) but 1½% lower in Switzerland (4.40½). The dollar, too, experienced its sharpest falls in Germany and Switzerland. Although early in the day dollars were sold to brake the dollar's firming tendency, no support was given as it eased on the news of a Swiss Bank Rate increase and the change in German Lombard Rate arrangements, coupled with the removal in Germany of the ban on investment in short-term paper by non-residents. The deutschemark rose 1% to close at 2.1420 (after 2.1325) and moved into the upper part of EMS where the florin took over from the French franc as strongest partner. The Dutch currency closed about ½% firmer at 2.34, 1 15/16% above the Belgian franc (34.64). The French franc was little changed at 5.00½; the Bank of France sold \$56mn. and deutschemarks worth \$42mn. The Germans sold \$50mn. The Swiss franc rose sharply this afternoon to 1.93½. The yen was the odd man out, easing to 206.80 in London, having closed in Tokyo at 205.80.

Gold eased in overnight markets, falling to \$490 in Hong Kong at mid-session but recovering there to \$501.75 by their close. In London the rise continued and the morning fixing was \$505.50 as persistent demand prevailed. There was some reaction later with the second fixing at \$503.25.

Operations:	Market	-	\$9mn.
	Sundries	+	3
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		-	\$6mn.
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19th February 1981. *DAHB*

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