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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 23rd February 1981

The Observer's forecast of a 3% cut in MLR in the Budget caused a 3% cut in sterling's value against the dollar today and 2% in ERI terms. The movement took place in Far East markets but does not seem to have been caused by very much actual selling. The dollar was affected by profit-taking, which caused a sharp rise in its value this morning and enabled it to show a net gain over weekend levels. Sterling's ERI fell to 100.4 at the close, after 100.1 at the opening.

In New York on Friday evening the pound closed at 2.3175. By London's opening today it had retreated to 2.2710; it moved up to 2.2722 but quickly fell away to hover around 2.2660 for the morning session. Having briefly touched 2.2715 shortly after lunch it again softened, closing at 2.2577 after 2.2572. Euro-dollars opened mixed but the 3 months' rate closed unchanged. Although sterling interbank shed about  $\frac{1}{2}\%$ , forward margins broadly compensated to leave the covered differential  $\frac{1}{2}\%$  p.a. adverse to London.

Because of the dollar's recovery during the morning, sterling lost only a net  $1\frac{1}{2}\%$  to the deutschemark: after an opening level of 4.74 $\frac{1}{2}$  it closed at 4.77 $\frac{1}{2}$ ; in France the decline was about  $1\frac{1}{2}\%$  to a level of 11.12 $\frac{1}{2}$  whilst in Swiss franc terms it fell to 4.30 $\frac{1}{2}$ . The deutschemark opened at 2.08 $\frac{1}{2}$  against the dollar but weakened sharply to 2.12 $\frac{1}{2}$  before entering a volatile period. By the close, at 2.1155, it was on a new upward path. The Germans sold \$25mn. this morning. Within EMS the lead changed again with the French franc resuming top position (4.9260), 2 $\frac{1}{2}\%$  above the Belgian currency (34.26). The Italians sold \$47mn. as the lira eased to 1012. The Swiss franc eased to 1.90 $\frac{1}{2}$  and the yen to 208.32 in London (having closed at 206.70 in Tokyo). The Swedes recouped another \$38mn.

Gold was quiet in the first session and fixed at \$506.50. Some persistent offerings caused a slight weakness and the second fixing was at \$501.50.

Operations:	Market	-	\$ 8 mn.
	Interest	+	8
	Mauritius	+	5
	Sundries	+	3
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		+	\$ 8 mn.
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	Overnight	-	\$ 9 mn.
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