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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 24th February 1981

Sterling lost another 1% in value today, to bring its decline this month to about 6%. There was modest buying interest for PRT reasons this morning but it remains much affected by interest rate concern and developments. The dollar had a particularly volatile time in Germany. Sterling's ERI dropped to 99.5.

Last night there was some selling out of the IMM, which pushed the pound down to 2.24. In Far East markets a further 3 cents were lost but there had been a recovery by London's opening, which was at 2.2375. During today's trading the rate ranged between 2.2515 and 2.2265 with no feature worthy of comment. By the close it had rallied to 2.2305 in spite of rumours about a strike by water employees. Following the Fed's action to mop up surplus funds last night, Euro-dollars moved up a little: the three months' rate closed at 16 9/16%. Interbank sterling shed another 1/8% and the adverse covered differential widened to 1/4% p.a.

Further ground was lost to Continental currencies as the pound slipped to 4.71 1/2 in Germany, 11.09 1/2 in France and 4.28 in Switzerland. The deutschemark was the most active market, the dollar ranging 5 pfennigs during the day from a low of 2.0880 (when German call money was over 20%) before closing unchanged at 2.1155. The announcement of special Lombard facilities at 12% served to weaken the deutschemark, in whose defence this morning \$100mn. were spent. Against other EMS currencies the dollar gained up to 1%, creating some strains on the mechanism. The Belgians sold French francs equivalent to \$24mn., the French bought Belgian currency worth \$16mn. The Dutch usurped the French pole position, the florin closing at 2.32 1/2, 2 1/2% stronger than their Belgian neighbours (34.57). The Italians also sold \$100mn. as the lira moved to 1017, and the Danes sold \$23mn. The Swiss franc eased to 1.9185 but the yen made a slight improvement in London, to 207.55, having closed in Tokyo at 208.35.

Gold was fairly steady, fixing at \$503.75 and \$503.

Operations:	Market	- 6 spot	+	\$13mn.
		+19 forward		
	IDA		+	9
	Sundries		-	1
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			+	\$21mn.
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