

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 25th February 1981

Exchange markets were engaged in less turmoil today and rate volatility was lessened. The deutschemark contrived to strengthen and this helped to nudge EMS up in spite of the message on US interest rates which was inherent in the lower money supply targets. Sterling moved lower, the ERI falling to 99.2.

Having closed the day in New York at 2.2352 yesterday, the pound opened today at 2.2295 and rose steadily to 2.2361 before two modest selling orders appeared, against deutschemarks. The rate returned to opening levels and fluctuated narrowly thereafter before closing at 2.2277 (after 2.2255). Euro-dollars turned easier this afternoon but rallied on the money target news to close at 16 11/16%. Sterling interbank ended at 12 3/4%, leaving the covered differential at 1/2% p.a. against London.

The pound dropped to 4.69 in Germany, 11.01 in France and 4.26 1/2 in Switzerland. The feature of the dollar's performance today was the extent to which some countries were resisting its attempts to strengthen. In Holland \$75mn. was spent, in Denmark \$78mn. and in Italy \$170mn. The Germans chose not to spend money, relying on the assistance of their short-term rates: the deutschemark improved to 2.1052, after 2.09 1/2 this morning and 2.11 this afternoon. EMS, however, was in some difficulty as pressure was exerted on the Belgian franc by the upward pull of the deutschemark. The franc closed at 34.44, a full 2 1/4% below the French franc which took over again at the top, at 4.94 1/4. The Swiss franc was slightly better at 1.9155; also the yen at 207.12 in London.

Gold was firm at first but eased after the money target news fixings were at \$505.75 and \$500.50.

Operations:	Market	-	\$6 mn.
	Iran	+	35
	Interest	+	12
	Sundries	+	2
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			+ \$43 mn.

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