

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 26th February 1981

It was a rather quiet and much more stable day on the exchanges. The dollar firmed a little overnight in New York where Federal Funds moved back above the 15% level. Although it strengthened further during the morning as Euro-dollar rates moved up, it lost all of its gains during the afternoon following confirmation by the Bundesbank that the DM 8bn. advanced yesterday under the new Lombard facility would have to be repaid by the close tomorrow. Sterling firmed a little in a quiet market. There were only minor apprehensions that MLR might be reduced today. The ERI rose 0.2 to 99.3.

Sterling rose a little in New York last night to close at 2.2315. This morning it opened at 2.2297 and, after first moving to 2.23, quickly came under sizeable professional selling pressure from Switzerland, falling to 2.2197 within the first hour of trading. As the selling subsided, the rate first stabilised around 2.22½ and then started to firm gently, reaching 2.2245 by mid-day. The announcement of an unchanged MLR saw the rate marked up to 2.2282 but it then eased back on early selling from New York. During the afternoon, as the dollar gave ground, the rate moved back up to touch 2.2307, but the higher levels were not held and the rate eased to end the day at 2.2270. Three-month Euro-dollars, at 16 9/16 were ¼% lower over the day. Sterling's forward premium narrowed by 1/16% to 3 15/16% but with slightly firmer inter-bank rates the covered differential fell to 1/16% against London.

Sterling was a touch firmer in Germany (4.69%) but gained 1% in Switzerland (4.31½) and ½% in France (11.06½). The dollar, too, was stronger in all these centres, closing at 2.11, 1.9375 and 4.9675 respectively. In the EMS the Belgian franc (34.51) came under further pressure and its divergency indicator moved to over 80. The guilder (2.3237) replaced the French franc in the lead position, 2½% ahead of the Belgian franc and 3½% above the lira (1019.50). The Belgians provided \$85mn.-worth of support for their currency in the form of sales of French francs and guilders and the Dutch and the French bought \$10mn.-worth and \$2mn.-worth of Belgian francs respectively. The Italians sold \$110mn. and the Irish \$35mn. The yen was steady, closing at 207.65 in Tokyo and 207.70 in London.

Gold was a weak market, dismayed at the prospect of continuing high US interest rates. The price drifted lower throughout the day. Fixings were at \$495.25 and \$492.

Operations:	Market	+	\$13mn.	
	Interest	+	24	
	Sundry	-	1	
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		+	\$36mn.	(of which \$3mn.
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