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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 27th February 1981

An active day on the exchanges, particularly in sterling, but rates were less volatile than on many days recently. The dollar, firme overnight in New York on interest rate grounds, strengthened further for much of the day but fell back in the afternoon following the announcement of a 0.4% fall in the index of leading indicators, which could presage lower US interest rates. The firmness of Euromark rates helped the deutschemark, which moved to the top of the EMS, shrugging off a sharp turnround in the trade account from a surplus of DM 1.0bn. in December to a deficit of DM 0.7bn. in January. Sterling encountered heavy selling at various stages throughout the day; it was mainly professional in the early morning but commercial in nature throughout the middle of the day. The ERI fell a further 0.4 to 98.9, making a loss of 6% during February.

Sterling was very quiet in New York last night, closing at 2.2270. This morning it opened at 2.2275 but widespread professional selling from Europe quickly took the rate lower. It fell to 2.2130 before some small commercial buying orders came to steady it and the rate recovered to trade around 2.21½ during mid-morning. However, at lunchtime some large commercial selling orders, one of which was not very skillfully handled, hit the market and the rate fell steadily throughout the early afternoon to a low of 2.1925. Then, as these orders were absorbed and the dollar moved back from its best levels in other centres, the rate recovered a little to end at 2.2032. Following a rise in Fed Funds last night, three-month Euro-dollars were ¼% firmer at 16 11/16%. Sterling's forward premium widened to 4% but with firmer sterling inter-bank rates interest parity prevailed.

Sterling lost ¼% in Germany (4.69½) and ¼% in France (11.04) but was a touch firmer in Switzerland (4.32). The dollar, too, was stronger in all these centres, but more so in Zurich (1.9610) and Paris (5.0125) than in Frankfurt (2.1250). By the close the mark narrowly headed the EMS, with the Belgian franc (34.89) fully stretched despite sales of French francs worth \$23mn. The Germans sold \$75mn., the Danes \$15mn. and the Irish \$10mn. The lira (1025) improved to 3 5/16% adrift after sales of \$245mn. Elsewhere, the Swiss franc was weak and fell to 0.92½ against the mark. The yen was similarly soft, closing at 208.85 in Tokyo and 209.67 in London.

Gold was steady at its lower levels. Fixings were at \$490.25 and \$489.

Operations:	IDA	+	\$17mn.
	Index	+	11mn.
		+	\$28mn. (of which -\$1mn. for February)

The result for February was a reserve increase of \$40mn. after net new public sector borrowing of \$44mn. The overbought forward position rose \$59mn. to \$1,614mn. The spot reserve position is now \$28,434mn.

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