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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd March 1981

Most of the activity today was concentrated early on in the Far East where sterling met some heavy selling, motivated by MLR considerations, from Middle Eastern sources. By contrast, the day in Europe was relatively quiet and stable. The dollar was stronger on higher Euro-dollar rates, following the increases in the money supply (M1A +\$1.Obn., M1B +\$2.Obn.) announced on Friday. Sterling regained a large part of its earlier losses and the ERI closed 0.2 lower at 98.7, after 98.1 at the opening.

Sterling ended an uneventful evening in New York on Friday at 2.2010. Heavy selling in the Middle East on Saturday and the Far East this morning meant that it had lost 3½ cents by the London opening at 2.1660 but these sales were absorbed fairly early and, after dipping to 2.1637, the rate started to move up steadily. No large-scale buying of sterling was seen but there was periodic small demand from Europe and the firmer tone was also helped by the shortage of sterling in the domestic market resulting from the payment of PRT. By mid-morning the rate had recovered to 2.1805 and although it eased to 2.1740 shortly before noon, the set-back was only temporary. While the dollar continued to strengthen in other centres, some modest short-covering from New York took sterling higher during the afternoon and it closed at 2.1815, the best level of the day. Following the money supply, three-month Euro-dollars were ¾% firmer at 17%. Sterling's forward premium widened to 4 5/16% but higher sterling inter-bank rates took the covered differential to ¾% in favour of London.

Sterling gained ¼% in Germany (4.70½) and France (11.07½) and ½% in Switzerland (4.34½). The dollar made rather larger gains, closing at 2.1560 in Frankfurt, 5.0757 in Paris and 1.9917 in Zurich. A severe shortage in the German domestic market, where call money rates reached 30%, was relieved by \$3bn. of foreign exchange swaps undertaken by the Bundesbank, rather than a reactivation of the new Lombard facility. The Dutch (2.3765) raised their discount rate by 1% to 9% and moved to the top of the EMS, 2½% above the Belgians (35.27) who sold French francs worth \$4mn. The lira (1037.12) improved to 3¼% below the guilder after sales of \$41mn. Elsewhere the Swedes bought \$55mn. The yen weakened further, as hopes of a discount rate cut grew; it closed at 210.75 in Tokyo and 211.32 in London.

Gold broke through the earlier resistance point of \$480 to fix at \$474.50 and \$465.50, the lowest level since December 1979.

Operations:	India	+	\$11mn.
	Iran	+	10
	Sundries	+	7
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		+	\$28mn.
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