

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 12th January 1981

A decline in the US monetary aggregates (M1A -\$2.3bn., M1B -\$2.5bn.) released at the close of business in New York on Friday made for a softer dollar at the opening this morning. However as Euro-dollar rates recovered, the dollar moved ahead in all centres, closing very firm. Sterling gave ground against the dollar only grudgingly and made further gains on the Continent. The ERI rose 0.2 to 79.3.

Sterling rose over a cent in New York on Friday night, where it closed at 2.4125. It opened ten points lower in London this morning at 2.4115 and, after touching 2.4130 on the early exchanges, started to ease against a strengthening dollar. Some modest buying on official account was seen during the morning but there was also a little commercial selling. Professional activity was two-way. By noon the rate had slipped to 2.4035 and, as early Americans came in to buy the dollar, it moved back to 2.3994 before firming to trade narrowly around 2.40. The afternoon was very quiet and sterling closed at 2.4004. In late business, as the dollar strengthened further, sterling was quoted down to 2.3975. Sterling's three-month premium was unchanged at $3\frac{1}{2}\%$ but with Euro-dollar rates 1/16% easier and sterling inter-bank rates similarly firmer there was a $\frac{1}{2}\%$ covered differential in favour of London.

The pound gained $\frac{1}{2}\%$ in Paris (10.98%) and Zurich (4.30%) and $\frac{3}{8}\%$ in Frankfurt (4.74%). The dollar was also firmer in these centres closing at 4.5770, 1.7950 and 1.9775 respectively. In late business, as Federal Funds traded to 20% in New York, the dollar made further sharp gains, the French franc was quoted at 4.5950, the Swiss franc at 1.8050 and the deutschemark at 1.9870. On Friday the Fed bought \$50mn.-worth of deutschemark. EMS was very quiet with the Belgian franc (31.82) closing $2\frac{1}{2}\%$ below the French franc and the lira (939) 3 9/16% adrift after sales of \$55mn. Elsewhere, the Swedes sold \$30mn. The yen closed at 202 in Tokyo, where the Bank of Japan bought \$2mn. and 203.46 in London.

Gold fell further as hopes grew that the US hostages in Iran might be released. Fixings were at \$564.25 and \$562.

Operations:	Market	+	\$2mn.
	PSB Guaranteed		
	(various)	+	81
	Government	+	29
	India	+	12
	Iran	+	10
	IDA	+	8
	Sundries	+	3
			<hr/>
			+ \$145mn.
			<hr/> <hr/>

12th January 1981.

TRS