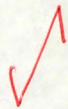


SECRET

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd January 1981

Last night in New York the Fed entered the domestic market twice to mop up surplus liquidity, thereby emphasising that recent reductions in the Fed Funds rate were a result of temporary factors. The dollar strengthened sharply on this action and the firmer trend was continued today when Euro-dollars opened $\frac{3}{8}$ % higher and rose a further $\frac{1}{8}$ % during the day. Sterling traded narrowly in a quiet market, reaching new highs in Europe. The ERI rose 0.1 to 80.3 (after equalling the record 80.4 of 6th November at noon).

Sterling lost over a cent last night in New York, closing at 2.4137 against a much firmer dollar. This morning it opened at 2.4155 and moved up steadily against an initially slightly easier dollar to touch 2.4225 in mid-morning. There was some modest professional buying from Europe and perhaps also the Middle East, together with some demand on official account but turnover generally was fairly light. As the buying interest waned and the dollar started to move ahead, sterling eased back from the higher levels to trade between 2.41 $\frac{1}{2}$ and 2.42 for most of the balance of the day, closing at the low of 2.4120. After the close, following reports that Henry Kaufman saw US interest rates moving higher, sterling fell back to 2.4030. Sterling's forward premium widened to 4 $\frac{5}{16}$ % but with Euro-dollar rates over $\frac{1}{8}$ % firmer the covered differential moved to 3/16% against London.

Sterling moved further into long forgotten territory in Europe, gaining $\frac{3}{8}$ % in Germany to 4.87 $\frac{1}{2}$ and France to 11.25 $\frac{1}{2}$ and $\frac{1}{8}$ % in Switzerland to 4.41 $\frac{1}{8}$, all levels last seen several years ago. The dollar, too, went to levels only a little below recent highs closing at 1.83 (later 1.8350) in Zurich, 4.6665 (later 4.6775) in Paris and 2.0201 (later 2.0250) in Frankfurt, where the Bundesbank announced it would be supplying liquidity to the domestic system through a change in reserve requirements. There was little change in EMS where the Belgian franc (32.46) closed 2 $\frac{3}{16}$ % below the French franc with the lira (958.62) 3 $\frac{11}{16}$ % below after sales of \$21mn. The Irish bought \$4mn. Elsewhere, the Swedes provided \$52mn. in support of the crown. The yen was very firm and there were reports that the Iranians were sizeable buyers; it closed at 200.40 in Tokyo and 200.42 in London.

Higher US interest rates hit the gold price which fell steadily over the day. Fixings were at \$567 and \$564 but the price shed a further \$10 in late business following Kaufman's remarks.

Operations:	Market	+	\$5mn.
	Sundries	+	<u>3</u>
		+	<u>\$8mn.</u>

22nd January 1981.

TRS