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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 9th February 1981

Sterling mirrored the dollar's performance for much of today in modest, two-way activity. The dollar again began very firmly, despite further declines in the monetary aggregates, but was once more stopped in its tracks by the Bundesbank, thereafter fluctuating in a narrow range. Sterling's ERI rose to 104.1.

The pound closed much better at 2.3450 on Friday in New York where the dollar lost ground. This morning, however, the dollar opened stronger. Sterling began at 2.33 and traded a little above that level on the early exchanges. The Bundesbank soon intervened to support the deutschemark, however, and the dollar turned back. Sterling was marked up progressively to 2.3415 by late morning. This afternoon trading was idle in a narrow range around 2.3375. Towards the close the dollar eased a touch, following the reduction in Morgan Guaranty's Prime Rate to 19%, and sterling advanced to close at 2.3405. The three-month forward premium was unchanged at 4 5/16% p.a. but, with Euro-dollars a touch easier, sterling's intrinsic premium rose to 5/16%.

The pound gained 1/8% in Germany (5.00%), 1/8% in Switzerland (4.53%) and 1/8% in France (11.55%). The dollar was fractionally easier in these countries at 2.1377, 1.9377 and 4.9375 respectively. EMS was fully-stretched for much of the day but closed only 2% wide between the French and Belgian (34.29) francs. The Belgians sold \$27mn. of French francs, the French bought Belgians francs worth \$16mn. and deutschemarks worth \$145mn., while the Bundesbank sold \$49mn. and French francs worth \$49mn. The lira (1012 1/2) was 3 1/2% distant after Italian sales of \$57mn. Elsewhere the Swedes sold \$18mn. The yen closed at 204.20 in Tokyo and 203.87 in London.

Gold recovered strongly in the Far East over the weekend. Trading today was dull but the price held up. Fixings were \$515 and \$512.50.

Operations:	Interest	+	\$9mn.
	Kenya	+	8
	Iran	+	5
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		+	\$22mn.
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