

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 17th February 1981

Action in the Welsh pits undermined sterling this morning and the market could also see the imminent collapse of an interest rate prop. The dollar subsided, too, on talk of a package to shore up the deutschemark and on the prospect of opposition to President Reagan's budget proposals. There was considerable volatility in rate movements. Sterling's ERI fell a whole point to 102.5.

In comparison with other currencies, the pound gained little from the dollar's weakness in the Far East and opened only a touch firmer at 2.2645. It struggled up to 2.2722 before some early selling from Switzerland led to a sharp decline to 2.2560, from which level a slow recovery began. This peaked at 2.2740 in mid-afternoon when some commercial selling, and offerings also out of the IMM, again reversed the trend; the rate closed at 2.2635. Forwards reacted to interest rate movements. Eurodollars opened about $\frac{1}{8}$ % lower, recovered this margin by midday but ended $\frac{1}{2}$ % down, at 18%, due to the weight of offerings. The covered comparison was at parity.

The pound lost about 10 pfennigs (nearly 2%) in Germany, where it closed at 4.97 $\frac{1}{2}$; and fell also in France (11.50%) and Switzerland (4.51 $\frac{1}{2}$) in more or less the same degree. The dollar opened weak, surged strongly this morning but then collapsed, only to struggle up again this afternoon. In Germany it moved between 2.2340 and 2.1850 before closing a net 2 $\frac{1}{2}$ % down on the day, at 2.1972; the Bundesbank sold \$178 mn. During the early session there was a professional sale of \$250 mn. The deutschemark moved away from the base of EMS where the Belgian franc improved to 35.36, some 2 $\frac{3}{16}$ % below the French franc which closed at 5.0837 after ranging between 5.16 $\frac{1}{2}$ and 5.06 $\frac{1}{2}$; the Belgians sold \$46 mn. of French francs and the French bought \$28 mn. of Belgian currency but sold \$35 mn. The Italians were sellers of \$46 mn., the Swiss of \$25 mn.: the Swiss franc rose by over 2 $\frac{1}{2}$ % to 1.9930. The yen closed at 207.45 in Tokyo, 206.75 in London.

Gold opened firmer and continued to improve, fixing at \$498.50 and \$500.75. On short covering operations it later rose to \$504 in New York.

| | | |
|-------------|----------|------------|
| Operations: | Market | + \$6 mn. |
| | Sundries | + 5 |
| | | <hr/> |
| | | + \$11 mn. |

17th February 1981

DAH B