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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 16th July 1980

A technical recovery in gold and a softer trend for Euro-dollars set the dollar on a declining path today. Sterling traded steadily in a narrow range but this concealed a high level of turnover in an excellent, two-way market. The ERI fell to 74.5.

The pound closed at 2.3695 yesterday in New York, where the dollar finished at its best levels for over a week. This morning it opened at 2.3696, traded back to 2.3689 then recovered, as the dollar eased, advancing to 2.3722 in mid-morning. The statistics on average earnings were quite well received. The market continued active but, while the dollar's decline accelerated this afternoon, sterling rose no further than 2.3735 before closing at 2.3725. Euro-dollars opened a little firmer but then softened to close fractionally easier than yesterday. Sterling deposits, however, were generally around  $\frac{1}{8}\%$  lower. Forward margins thus continued to narrow, the three-months' to 5 15/16% p.a. discount. Sterling's intrinsic premium fell to 5/16%.

The pound lost  $\frac{1}{8}\%$  in France (9.60 $\frac{1}{2}$ ) and Germany (4.13 $\frac{1}{2}$ ) and  $\frac{3}{8}\%$  in Switzerland (3.80 $\frac{1}{2}$ ) where the franc, as usual, led the dollar's decline, closing at 1.6030. The deutschemark firmed to 1.7430. EMS widened to 3 $\frac{3}{8}\%$  between the French franc (4.0485) and lira (831) but the Italians were able to take in \$95mn. The yen closed at 219.20 in Tokyo and 218.70 in London.

Gold was sold down to \$604 in New York yesterday and again in the Far East this morning. London opened at that level and then witnessed a strong, technical rally. The fixing was \$624.50 and the metal traded on up to \$635 by midday. New York sold into the fixing but support was found around the morning level and a price of \$624.75 was set. This sparked a further rally to \$630 but by the close the metal was back to around the fixing level.

Operations:	Market	+	\$4mn.
	Sundries	+	3
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		+	\$7mn.
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*JGH* 16th July 1980.

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