

THE DEPUTY GOVERNOR.

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 4th August 1980

Sterling was in good demand at times today and contributed in no small part to a deterioration in the dollar's fortunes. The increase in Chemical Bank's Prime Rate, however, restored the dollar's health and induced some profit-taking in pounds. Sterling's ERI rose to 74.6.

The pound closed at 2.3405 in New York on Friday following some keen buying interest. This morning, it opened at 2.3380, dipped to 2.3362 but then met demand from the Middle East and topped 2.34 again. Sterling's relative strength caused the dollar to ease elsewhere (although OPEC diversification may well have been a factor) and the pound continued to firm through the morning. Further strong appetite for sterling early this afternoon pushed the rate to 2.3562 but the increase in Chemical Bank's Prime Rate by $\frac{1}{8}\%$ to 11% gave the dollar a boost and sterling was well offered in the closing stages, the rate falling to 2.3403 before finishing at 2.3415. The cost of three months' forward cover was unchanged at $5\frac{1}{8}\%$ p.a. but, with sterling deposits firmer, interest parity was restored on the covered comparison.

The pound lost $\frac{1}{8}\%$ in Switzerland (3.86 $\frac{1}{2}$) but was a touch firmer in France (9.70) and Germany (4.18 $\frac{1}{2}$). The dollar closed weaker in these centres at 1.6515, 4.1425 and 1.7864 respectively. On Friday the Federal Reserve sold \$10 mn. for marks and \$10 mn. for Swiss francs. Today the Bundesbank sold \$10 mn. for themselves and a further \$10 mn. for Federal Reserve account. In the EMS, the French franc regained the leadership from the punt at first but, after purchases of \$100 mn. by the French, the punt (2.1150) recaptured the lead. The band widened to $2\frac{1}{4}\%$, the lira (841.70) still at the bottom. The yen closed at 226.85 in Tokyo and 226.15 in London.

Gold was steady this morning and the price was fixed at \$622.25. This afternoon some buying interest was seen, perhaps on the weaker dollar, and the fixing set a level of \$630.75.

Operations:	Market	+ \$12 mn.
	National Coal	
	Board	+ 75
	(PSB Guaranteed)	
	Government	+ 31
	Sundries	+ 4
		<u>+ \$122 mn.</u>
	Overnight	+ <u>\$7 mn.</u>

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