

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 28th August 1980

Heavy selling of sterling and dollars by Middle East operators caused a swift reversal of direction today for both currencies. Profit-taking was adduced as the reason for sterling's decline whilst the dollar's weakness was attributed to fears that Carter's speech later today would hint at the desirability of lower interest rates. Sterling's ERI fell to 75.9.

The pound traded quietly last night in New York, closing at 2.3965. It opened in London today at 2.3922, rose to 2.3956 and eased to 2.3865 before closing at 2.39 - only slightly lower than last night. Euro-dollar rates edged higher - to 11 13/16% for three months - but forward margins narrowed by $\frac{1}{8}$ % and the covered premium for London rose to $\frac{1}{8}$ % p.a.

Sterling's stable performance against the dollar disguised a fall of about 1% in Europe: to 4.27 in Germany, 9.93% in France and 3.93% in Switzerland. The Italians sold \$100mn. - presumably early on because the lira improved to 851.50, 3 $\frac{1}{2}$ % weaker than the florin (1.9494). The deutschemark was particularly well wanted for Kuwait account and improved to 1.7870. The French franc strengthened to 4.15 $\frac{1}{2}$, the Swiss franc to 1.6460 and the yen to 218. The Swedes sold another \$74mn.

Gold was steady, fixing at \$633.75 and \$635.30.

Operations:	Market	+	\$13mn.	
	Interest	+	19	
	Sundries	+	2	
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		+	\$34mn.	(of which -\$6mn. for August)
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DAHB
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