

THE DEPUTY GOVERNOR

Tuesday, 7th October 1980  
FOREIGN EXCHANGE AND GOLD MARKETS

Sterling remained on an offered tack today, with interest rate expectations dominant, and the banking statistics served to confirm this trend. The dollar continued a modest recovery. Sterling's ERI was unchanged throughout at 75.8.

The pound closed at 2.3975 in New York yesterday but opened this morning at 2.3925 following selling once more in the Far East. Swiss professionals were again early sellers, too, and after touching 2.3938, sterling tended easier, though at no great pace. By mid-morning the rate had declined to 2.3892 but this modest fall was sufficient to induce profit-taking and the pound had regained opening levels before midday. The banking figures were taken to be good - thus portending an early reduction in MLR - and sterling was immediately marked down. Selling was not heavy and was largely commercial in origin. Professional short-covering provided some support at the lower levels and, after touching 2.3870, sterling recovered to close at 2.3892. Forward margins narrowed in response to the banking figures and, as often, outdistanced events in deposit markets. The cost of three months' cover fell to 2 3/16% p.a. and, with eurodollar and sterling deposits both lower by 1/4%, the covered differential rose to 7/16% in London's favour.

The pound was unchanged in Frankfurt (4.31 1/4) and fractionally firmer in Paris (10.00 1/4) and Zurich (3.91 1/4). The dollar closed firmer in all these centres at 1.8044, 4.1886 and 1.6387 respectively. EMS expanded a touch to 3 1/2% between the florin (1.9628) and lira (859.75). The Bundesbank sold \$22 mn; the Belgians lost \$38 mn. following the resignation of their government; the Danes took in \$8 mn. The yen closed little changed at 208.40 in Tokyo but weakened to 208.95 in London (after 209.50).

Gold recovered further ground as the Middle East situation continued to provoke short-covering. Fixings were \$679.50 and \$678.15.

Operations:	Market	+ \$7 mn.
	Interest	+ 12
	Sundries	+ 5
		+\$24 mn.
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*Jm*  
7 October 1980  
J.G.H.