

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 23rd October 1980

Sterling ranged widely today, depressed at first on the prospect of a cut in Minimum Lending Rate but rebounding strongly after the announcement to another 7-year high on the dollar. With that currency, too, continuing quite firm, sterling's ERI closed at a record 78.6.

The pound closed at 2.4340 in New York yesterday although the dollar was somewhat easier. This morning the dollar tended still softer but sterling opened weaker at 2.4295 and touched 2.4285 on the early exchanges with dealers sparring nervously ahead of the MLR announcement. Professionals in London bought pounds at the lower levels, however, and sterling recovered to establish a range around 2.4350. Further demand was seen in mid-morning on commercial and Central Bank account and sterling was trading around 2.44 by early afternoon. The unchanged MLR opened the gates to a fresh tide of demand. Short-covering from New York and renewed buying from Switzerland, probably on Middle East account, drove sterling up quickly to 2.4516, a shade better than its previous 7-year best, but professional profit-taking from Paris at this level brought a relapse and the pound drifted quietly back to close at 2.4447. Forward margins narrowed as Euro-dollars hardened. Three-months' cover cost $2\frac{1}{2}\%$ p.a. and the covered differential rose to $\frac{1}{4}\%$ in London's favour.

Sterling scored modest gains in France (10.49 $\frac{1}{2}$), Switzerland (4.06 $\frac{1}{2}$) and Germany (4.55 $\frac{1}{2}$). Despite a recovery this afternoon, the dollar still closed easier in these centres at 4.2912, 1.6630 and 1.8634 respectively. EMS remained 3 11/16% spread between the French franc and lira (881.45) but the deutschemark slipped to the full 2 $\frac{1}{2}\%$ distance from the franc and closed at that level. The French bought \$34mn.-worth of marks in response. Elsewhere the Irish sold \$8mn. and the Swedes \$25mn. The yen closed at 209.25 in Tokyo but then weakened on fears of a reduction in Bank Rate and closed in London at 210.45.

Gold was very weak today on expectations that the hostages in Iran would be released. After fixing at \$649.25 this morning, the price plummeted this afternoon. The fixing was \$634.50 but there was a slight recovery later following Kosygin's resignation.

Operations:	Market	+	\$27mn.
	Australia	+	5
	Sundries	+	<u>1</u>
		+	<u>\$33mn.</u>

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