SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 24th October 1980

Further strong foreign demand drove the pound to new recent highs this morning. Later, however, there was some reaction and sterling was sold in the twilight hours on a rumour of an impending package. The ERI closed at 78.9 after a new record 79.3 this morning.

The pound closed a cent firmer in New York yesterday at 2.4550. This morning it opened at 2.4502 and quickly traded back up to New York closing levels. The dollar, too, moved firmer. Keen buying interest from Switzerland then emerged, probably on Middle East investment account, and dollar and pound soared, the latter to 2.4645, another 7-year high. With this satisfied, however, sterling eased back and traded around 2.4550 into early afternoon. New York's return brought some scattered squaring of positions before the week-end and, in a thin market, sterling fell to 2.4445 before closing at 2.4495. After the close, however, a spate of offerings were seen from the Middle East and Chicago, following a rumour that MLR would be cut this week-end as part of a package, and the pound dropped sharply to 2.44. Dollar deposits were again firmer, sterling deposits a little softer. Foward margins, however, were barely changed - three-months' was 2 15/16% p.a. discount - and sterling's intrinsic premium was thus eliminated.

This morning the pound set new recent highs in France (10.62⅝), Switzerland (4.11⅞), Germany (4.61½), Italy (2182) and Holland (4.99¾). In Zurich it closed a net 1⅛% better at 4.10⅞, in Frankfurt ½% firmer at 4.57⅝ and in Paris ¼% higher at 10.52⅜. The Swiss franc was sold late in the day out of Chicago and fell to 1.6765 on the dollar and 0.89¾ on the mark. The deutschemark eased to 1.8681 (after 1.8726). The Federal Reserve yesterday sold $40mn. (spot) and $11mn. (forward) for marks. Today the Germans sold $10mn. for American account and $4mn. for themselves. EMS widened to 3 15/16% between the French franc (4.2962) and lira (884.65). The mark remained the full 2¼% distance from the franc for much of the day. The French bought marks worth $28mn.; the Bundesbank sold $3mn. of French francs. The Irish spent $12mn. The yen held its ground in Tokyo, closing at 210.80, but weakened again in London to finish at 212.42.

Gold fell again in New York yesterday. After opening today at $626, it traded steadily through the morning, fixing at $628 but improved somewhat this afternoon, when the fixing set a level of $633.

Operations: Interest + $6mn.

24th October 1980.

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