

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 28th October 1980

The dollar raced ahead again this morning when Euro-dollar deposits once more opened much firmer. Sterling suffered from one very large selling order but survived this comfortably and generally traded to its usual pattern, losing ground to the dollar but gaining on the Continent. The ERI closed unchanged at 78.9.

The pound finished at 2.4370 in New York yesterday and opened at 2.4362 this morning against a firmer dollar. The early exchanges saw sterling up to 2.4375, despite a stronger dollar elsewhere, but once the dollar settled down in the face of swift and forceful Bundesbank intervention, the pound fell quickly to 2.4300 before establishing a trading range around 2.4340. A major Swiss bank placed a large selling order, perhaps as much as £100mn. and probably on Middle East account, but this was absorbed without undue impact and only when the dollar pushed ahead again in late morning did sterling retreat once more to 2.43. New York's return drove the dollar rapidly up to fresh six-month highs on the Continent and sterling fell to 2.4267. Official support for the mark, however, again turned the dollar and the pound recovered to close at 2.4310. Later the Prime Minister's assertion that interest rates could not be reduced while public and private sector loan demand remained buoyant sent sterling swiftly to 2.4373. Euro-dollars were around $\frac{3}{8}$ % harder and sterling deposits, too, were $\frac{3}{8}$ % firmer. Forward margins narrowed, the three-months' to 1 11/16% p.a. discount, and the covered differential was 1/16% against London.

The pound gained $\frac{3}{8}$ % in France (10.59%) and Germany (4.60) but was only a shade firmer in Switzerland (4.13%). This morning, however, sterling had set a new three-year high (4.15%) against the Swiss franc. The dollar advanced to 1.8920 on the mark (after 1.8980) and 1.7015 on the Swiss franc (after 1.7130). Yesterday the Federal Reserve sold \$5mn. for Swiss francs and \$55mn. for deutschemark (of which \$15mn. forward). Today the Germans sold \$130mn. for the Federal Reserve and \$93mn.-worth of French francs within EMS, where the mark remained 2 1/2% distant from the franc (4.3570). The French bought \$74mn. of deutschemarks. Their franc closed 3 11/16% above the lira (894.55). Elsewhere the Norwegians took in \$75mn. (forward) but the Canadian dollar remained under pressure ahead of the budget. The yen was steady, closing at 213 in Tokyo and 213.05 in London.

Gold eased again in the Far East this morning but thereafter traded steadily around the lower levels. Fixings were \$631 and \$631.75.

Operations:	Market	+	\$7mn.
	Post Office	+	23
	(PSB G'teed)		
	Iran	+	15
	India	+	12
	Ghana	-	6
	Sundries	-	1
		+	\$50mn.

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