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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 29th October 1980

Sterling was quiet and firm today, bolstered by the Prime Minister's observations on interest rates. The dollar ran up to yesterday's high points this morning, but was heavily sold this afternoon when the deutschemark rate failed to breach 1.90 for the second successive day. Very heavy intervention was required to contain the EMS. Sterling's ERI rose to 79.0.

The pound closed at 2.4377 in New York yesterday, over half a cent better following the Prime Minister's statement. This morning the pound opened at 2.4415, traded up to 2.4450 as the dollar declined, then settled back on some professional offering in London to establish a trading range around 2.44. The pound held its level as the dollar strengthened in late morning. This afternoon, however, as the dollar was sold, sterling was marked up to 2.4445 before closing at 2.4430. Euro-dollars lost part of their earlier gains as Federal funds eased in New York but still closed firmer on balance. Sterling deposits, too, were better bid. Forward margins, however, narrowed - the three-months' to 1 9/16% p.a. discount - and the covered differential finished fractionally in London's favour.

At one stage this morning, sterling established new recent records in Zurich (4.16%), Paris (10.66%), Milan (2187), Amsterdam (5.00%) and Frankfurt (4.63). By the close it was barely changed on balance against the Swiss franc (4.13%) and deutschemark (4.60%) and only a shade firmer against the French franc (10.60%). The dollar eased against each of these currencies to 1.6931 (after 1.7070), 1.8834 (after 1.8972) and 4.3395 (after 4.37) respectively. Increases in several major US banks' Prime Rates to 14% did little to help the dollar since the overnight money market was a good deal easier. Yesterday the Federal Reserve sold \$54mn. for marks (of which \$20mn. forward) and the Bundesbank today sold \$35mn. for the Americans. EMS widened to 3% between the French franc and lira (892.80). The mark finished only 2 3/16% distant from the franc, but only after German sales of francs worth \$166mn. and French purchases of deutschemark equivalent to \$376mn. The French franc closed at -70 on the index of divergence. The Belgians sold \$41mn. as their franc slipped down the band towards the mark. The yen closed at 211 in Tokyo but firmed sharply in London this afternoon to 209.85.

Gold staged a technical rally, aided this afternoon by the dollar's reversal. Fixings were \$643.50 and \$644.

Operations:	Market	+	\$8mn.
	Interest	+	30
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		+	\$38mn.
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*JGH* 29th October 1980.

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