

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 31st October 1980

Sterling ended the week quietly, trading steadily against a much stronger dollar. This brought a new record ERI (79.5) this morning and new recent highs for the pound across the Continent. This afternoon, however, Americans took profits in the dollar, which closed well below its best. Sterling's ERI finished the day at 79.2.

The pound closed at 2.4435 in New York yesterday. This morning it opened at 2.4422 and traded without feature between that level and 2.4350 all day before closing at 2.4375. Softness in the late afternoon was associated with the easier dollar. Having hardened this morning, dollar deposits closed unchanged on balance. Sterling deposits were firmer. Forward margins widened, the three-months' to 1 9/16% p.a. discount, and interest parity prevailed.

This morning sterling set a three-year high in Switzerland (4.20 $\frac{1}{2}$), a four-year best in Germany (4.66 $\frac{1}{2}$), its strongest point for 4 $\frac{1}{2}$ years in Holland (5.04 $\frac{1}{2}$), a six-year record in France (10.75) and a best-ever level in Italy (2205). Against the French franc and deutschemark it closed only $\frac{1}{2}$ better at 10.66 $\frac{1}{2}$ and 4.63 $\frac{1}{2}$ respectively and against the Swiss franc (4.16 $\frac{1}{2}$) it was barely changed. Against these three currencies the dollar established six-month highs this morning (4.40 $\frac{1}{2}$, 1.9127 and 1.7225) before finishing at 4.3745, 1.9032 and 1.71 respectively. Yesterday the Federal Reserve sold \$255mn. for deutschemark (of which \$35mn. forward). Today the Bundesbank sold \$120mn. for American account. EMS narrowed to 3 $\frac{1}{2}$ between the French franc and lira (898 $\frac{1}{2}$). The 2 $\frac{1}{2}$ band, however, was fully stretched all day. Once again, although the French franc and deutschemark were the ultimate outriders, the Dutch florin and the Belgian franc were in either pole position for much of the time. The French franc remained at -70 on the index of divergence. The Bundesbank sold \$202mn.-worth of French francs and the Bank of France purchased \$255mn.-worth of marks. The Belgians sold \$32mn.-worth of French francs and \$15mn.-worth of guilders, while the Dutch took in \$5mn. of Belgian francs and \$171mn. of marks. The Irish sold \$10mn. as the punt slipped further down the band. Elsewhere, the Norwegians bought \$85mn. (forward). The yen closed at 211.75 in Tokyo and 211.27 in London (after 212.40).

Gold softened progressively over the day, first in the face of the stronger dollar and latterly on further indications of diplomatic and other activity surrounding the hostages in Iran. Fixings were \$636 and \$629.

Operations: Sundries + \$4mn.

The result for October is an increase of \$389mn. in the reserves to a level of \$28,026mn., after net new public sector borrowing of \$96mn. and an IMF repurchase under the oil facility of \$80mn. The overbought forward position was reduced by \$50mn. to \$1,845mn. The effect of the renewal of the ECU swap with the EMCF was to increase the reserves by \$82mn. and reduce the forward position by a like amount.

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