

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 3rd November 1980

The new month brought a fresh cycle of movements over the exchanges with the dollar and pound again riding in tandem to new and unfamiliar heights. Interest rates continued to propel the dollar. Sterling's progress - which took it to new recent record levels against most major currencies save the dollar and yen - was driven by a large volume of pent-up commercial demand. The ERI finished at 79.7 after a record 79.8 at noon.

The pound closed at 2.4335 on Friday in New York, where the dollar was generally firmer. Following another disappointing set of money figures in the USA, Euro-dollars opened yet firmer this morning and immediately tended higher. The dollar responded by opening sharply better and sterling was marked down to 2.4287 at the start of play, falling to 2.4255 as banks moved to take short positions. The pound turned in mid-morning behind a large buying order on Central Bank account. This did no more than stabilize the market at first but the steadying was itself sufficient to unleash a substantial commercial buying interest from those who had been waiting for relatively cheap levels. Sterling advanced inexorably to 2.4487 in late morning as professionals scrambled to cover their short positions. The afternoon was somewhat less hectic. Profits were taken in the dollar; sterling eased also to close at 2.4442. Dollar deposits were $\frac{1}{8}$ - $\frac{1}{8}$ better bid, sterling deposits up to $\frac{1}{8}$ firmer. Forward margins narrowed, the three-months' to $1\frac{1}{8}$ p.a. discount, and interest parity again prevailed.

At one stage today, sterling reached its highest level for several years in most European centres. In Switzerland (4.22 $\frac{1}{2}$) this was the best for 3 $\frac{1}{2}$ years; in Belgium (75.50), Holland (5.08 $\frac{1}{2}$) and Germany (4.70 $\frac{1}{2}$) for 4 $\frac{1}{2}$ years; in France (10.83 $\frac{1}{2}$) and Norway (12.23 $\frac{1}{2}$) for 6 years and in Sweden (10.47 $\frac{1}{2}$) and Denmark (14.49) for 6 $\frac{1}{2}$ years. In Italy (2222) a new all-time peak was established. The pound closed $\frac{1}{8}$ better in Zurich (4.20 $\frac{1}{2}$), $1\frac{1}{8}$ firmer in Frankfurt (4.68 $\frac{1}{2}$) and $1\frac{1}{8}$ higher in Paris (10.79 $\frac{1}{2}$). The dollar improved variously in these three centres to 1.7195 (after 1.7310), 1.9161 (after 1.9246) and 4.4152 (after 4.4312) respectively. On Friday the Federal Reserve sold \$25mn. for deutschemark. Today, the Bundesbank sold \$130mn. for American account and \$22mn. for themselves while the French took in \$63mn. EMS was again under pressure. The French franc and lira (904 $\frac{1}{2}$) closed only 3 $\frac{1}{8}$ apart but the narrow band was fully stretched, with the Belgian franc at the tail and the French franc and guilder in the lead. The French bought marks worth \$54mn. and the Dutch took in \$3mn. of Belgian francs and \$113mn. of marks. The Bundesbank sold \$5mn. of guilders and \$134mn. of French francs. Tokyo was closed for a dose of culture but the yen firmed in London to 211.

After a quiet morning gold staged a technical rally this afternoon. Fixings were \$634.30 and \$640.50.

Operations:	Market	+	\$53mn.
	BIS	+	37
	Sundries	+	2
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		+	\$92mn.
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