

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 24th November 1980

With the advance publicity given by the press to the Chancellor's package, only the timing and extent of the reduction in Minimum Lending Rate were left open to question. Sterling traded comfortably through the day, while losing more ground. Following the cut in MLR, the pound receded further, but business was neither heavy nor unbalanced and the market remained sensible, if a little volatile. The dollar weakened in sympathy with the pound. Sterling's ERI fell from 77.4 to 76.8.

The pound closed at 2.3600 on Friday in New York where the dollar was generally stronger. This morning eurodollars were up to  $\frac{1}{2}$  better bid and the dollar gained around  $\frac{1}{2}$  across the board. Sterling opened at 2.3492 and traded uncertainly on the early exchanges as dealers strove to read between the lines of the weekend press comment on the likely package. A number of commercial latecomers tried to dump pounds before it was too late but there was no lack of profit-takers prepared to close short positions even at these levels. This pattern prevailed through the morning, sterling fluctuating half a cent either side of the opening level. Early this afternoon a large Swiss professional began to short-cover and the pound advanced to 2.3590. Early Americans sold sterling, however, and the froth was taken off. The earlier parts of the Chancellor's statement were very well received and sterling was bid up to 2.3620, as commercial buyers were drawn in. The 2% reduction in MLR to 14% brought a sharp fall. For a brief flash, the market groped for any level. A suggested 2.3475 was accepted and the pound closed at 2.3485. Later, however, a familiar Middle Eastern professional began to cut out a very large long sterling position. Chicago, too, were modest sellers and the pound was traded down to 2.3360 after hours. Three month eurodollars finished  $\frac{1}{2}$  firmer. Comparable sterling deposits were  $\frac{3}{16}$  easier. Sterling's three month forward premium widened by over 1% to 2  $\frac{11}{16}$  p and the covered differential rose to  $\frac{1}{2}$  in London's favour.

The pound gave up  $\frac{3}{8}$  in Switzerland (4.05 $\frac{1}{2}$ ),  $\frac{1}{2}$  in France (10.44 $\frac{1}{2}$ ) and  $\frac{1}{8}$  in Germany (4.49 $\frac{1}{2}$ ). The dollar lost all and more of the day's earlier gains closing barely changed against the Swiss franc (1.7265) and slightly easier in Paris (4.4475) and Frankfurt (1.9145). The Federal Reserve sold \$20 mn. for marks on Friday and the Bundesbank sold \$30 mn. for the Americans this morning. EMS was more relaxed. The florin (2.0777) closed 3 $\frac{3}{8}$  above the lira (910 $\frac{1}{2}$ ) and 2  $\frac{1}{16}$  ahead of the Belgian franc (30.77). The Irish sold \$8 mn. Elsewhere the Swedes bought \$20 mn. Japanese markets were otherwise occupied giving thanks for labour. In London the yen closed ever steady at 213.17.

New York once more bid gold up to \$642 on Friday. The rising cost of carry took its toll today, however, and the fixings were progressively lower at \$635 and \$631. Later still New York took the metal down to \$625.

Operations:	British Air	+ \$50 mn.
	(PSB G'teed)	
	India	+ 24
	Sundries	+ 9
		<u>          </u>
		+ \$83 mn.

24 November 1980  
J.G.H.