

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 26th November 1980

Markets were fairly quiet and stable. Sterling came back into demand on commercial account as exporters, who earlier had lagged conversion of export receipts, switched into sterling. Following a new round of prime rate increases, the dollar firmed in all centres, except London. Sterling's ERI rose 0.8 to 77.8.

Sterling closed a little firmer at 2.3592 yesterday in New York and opened at 2.3595 in London. After dipping to 2.3585 immediately after the opening, demand from Europe coupled with sizeable buying on commercial account set the scene for a steady upward progression throughout most of the morning. By 11 a.m. the rate had risen to 2.3765 and although it eased back to 2.3730 at noon, it recovered quickly on early buying from the US, touching 2.3775 around the time of the New York opening. However, news of the $\frac{1}{8}$ % increase, to 17 $\frac{1}{8}$ %, in Chase Manhattan's prime caused sterling to be marked down and the rate fell back to 2.3682, before ending the day in a quiet market at 2.37. The forward premium for three-month sterling widened to 2 $\frac{1}{4}$ %. With Euro-dollars 3/16% firmer, at 17 13/16%, and sterling inter-bank rates a little higher, the covered differential against sterling narrowed to $\frac{1}{8}$ %.

The pound gained ground on the Continent, rising by 1 $\frac{1}{8}$ % against both the mark (4.55 $\frac{1}{4}$) and French franc (10.55 $\frac{1}{4}$) and by 1% against the Swiss franc (4.10 $\frac{1}{2}$). With higher Euro-dollar rates, the dollar finished firmer in all these centres, closing at 1.9214 in Germany, 1.7321 in Switzerland and 4.4545 in France. The Fed sold \$10mn. for DM six-months outright yesterday and the Bundesbank sold \$10mn. spot for the Fed today. In the EMS, the Belgian franc (30.87) closed 2 1/16% below the guilder (2.0840) and the lira (913.25) improved to 3 11/16% below. The French sold deutschemark worth \$21mn. The Swedes sold \$3mn. The yen, which had closed a little softer at 214 in Tokyo, weakened sharply in London on reports that exchange controls are to be lifted. It lost nearly 2%, closing at 216.17.

Gold, which had firmed overnight in New York, held most of its gains. Fixings were at \$625.50 and \$623.

Operations:	Market	+	\$14mn.
	Botswana	+	5
	Sundries	-	1
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		+	\$18mn.
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26th November 1980.

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