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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 5th December 1980

The 1% increase in both the Discount Rate (to 13%) and the penalty surcharge (to 3%), announced late yesterday by the Federal Reserve, drove the dollar to its highest level for 8 months against the Continental European currencies. Sterling, however, was less troubled and the ERI rose to 77.3.

The pound closed at 2.3440 yesterday in New York where the dollar was generally stronger. The rise in the Discount Rate was announced after the close in New York but on the West Coast sterling was later traded down to 2.3350. This morning the pound opened at 2.3403. Although the dollar was sharply firmer elsewhere and indeed continued to gain a little further ground, sterling traded quietly around the opening level, touching 2.3415 at one stage. Forceful intervention by the Bundesbank turned the dollar and late in the morning sterling, too, turned easier, falling to 2.3355 in the process. The afternoon was passed quietly in the lower range but late in the day the Chicago IMM entered to buy the pound, which rose to close at 2.34. Three-month Euro-dollars closed $\frac{1}{2}$ % firmer. Sterling's three-month forward premium widened to $4\frac{3}{16}$ % p.a. and the adverse covered differential was $\frac{1}{2}$ %.

The pound gained $\frac{1}{2}$ % against both the French franc (10.60 $\frac{1}{2}$) and deutschemark (4.58 $\frac{1}{2}$) and $\frac{1}{8}$ % against the Swiss franc (4.13 $\frac{1}{2}$). The dollar closed at 4.5310, 1.9587 and 1.7670 respectively against these currencies. Citibank's Prime Rate increase to 19% had little impact at the time but after the close, with sterling in demand, the dollar jumped to 1.6730 in Zurich and 1.9650 in Frankfurt. Yesterday the Federal Reserve sold \$244mn. for marks. Today the Germans sold \$105mn. for American account and \$25mn. for themselves. The guilder (2.1215) retained hegemony in EMS with the lira (929.75) 3 $\frac{1}{2}$ % short and the Belgian franc (31.46) a little less than 2 $\frac{1}{2}$ % away. The French bought marks worth \$75mn. and the Danes took in \$40mn. but the Irish sold \$13mn. and the Swedes \$30mn. The yen eased in New York yesterday, closed at 213 in Tokyo this morning and firmed again to 211.22 in London. Bond conversions were cited as the factor behind today's strength.

Gold crumbled before the further advance in interest rates. Fixings were \$620.25 and \$617.

Operations:	India	+	\$23mn.
	Kenya	+	23
	IDA	+	6
	Ghana	-	6
	Sundries	+	1
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		+	\$47mn.
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