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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 1st July 1980

Sterling remained quite firm today, although volume was not on yesterday's scale. The dollar remained soft but fairly steady and closed a touch weaker in most centres. Sterling's ERI rose to 74.5.

The pound closed at 2.3585 in New York yesterday but opened at 2.3527 this morning, despite a generally easier dollar. Pound and dollar both soon picked up a little and, with Swiss banks active in both directions, sterling established a level around 2.3550. Sizeable commercial demand from Germany later took the pound into higher ground and it had crested 2.36 before US markets re-opened. Small but persistent buying interest from North America kept the currency around or above that level and it touched 2.3630 before closing at 2.36. Forward margins widened slightly, three-months' cover costing 7 3/16% p.a. With inter-bank sterling deposits much better bid, however, sterling's intrinsic premium rose to 5/16%.

The pound was little changed against the Swiss franc (3.83%), French franc (9.64%) or deutschemark (4.15%). Against the dollar these improved variously to 1.6267, 4.0880 and 1.7617. EMS widened substantially to 3 15/16%, the Italians selling \$2mn. in support of the lira (841.65). Rumours of impending devaluation were still rife despite the introduction of new measures. The French bought \$9mn. (swapping out \$20mn.) and the Danes bought \$7mn. The yen continued to weaken and closed without support at 220 in Tokyo. In London, it recovered slightly to 219.60.

Gold remained active and firm. The trading range was much as yesterday's but the metal finished today at best levels. Fixings were \$656 and \$660 and the close around \$664.

Operations:	Market	+	\$8mn.
	Interest	+	14
	Sundries	+	8
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		+	\$30mn.
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	Overnight	+	\$13mn.
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