

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 3rd July 1980

The pound lost $\frac{1}{2}\%$ - $\frac{3}{8}\%$ in the wake of the 1% reduction in Minimum Lending Rate. The market was very orderly throughout and an encouraging level of two-way trading quickly developed. The dollar remained soft and was little moved by the abolition of the Federal Reserve's credit control measures. Sterling's ERI fell to 73.9.

New York closed the pound at 2.3600 yesterday and London's opening level was 2.3567. After touching 2.3560 on the early exchanges, sterling met good demand from both commercial and professional sources. 2.3636 was paid before a trading level was established around 2.36. Banks in London proved very ready to take short positions at this stage and these shrewd tactics helped to cushion any precipitate decline following the MLR announcement. At the time the rate was 2.3607: it was marked down immediately to 2.3550 and thence on to 2.3450. A host of small panic sellers were seen at this stage, mostly of the commercial genre. Thereafter, a good two-way market developed around 2.34. Further commercial demand was seen, with ready supply elsewhere. New York was quiet ahead of the holiday tomorrow: Chicago - probably long of pounds - looked set to sell but held their hand. Sterling fell no lower than 2.3375 before recovering, as the dollar eased a little following the announcement by the Federal Reserve, to close at 2.3455. Forward margins narrowed sharply, the three-months' by $\frac{1}{2}\%$ to $6\frac{1}{2}\%$ p.a. discount. Three-month sterling deposits fell $\frac{3}{8}\%$ to 16% and the covered differential fell to 1/16% in London's favour.

The pound lost $\frac{1}{2}\%$ in Frankfurt (4.12 $\frac{1}{2}$) and $\frac{3}{8}\%$ in each of Zurich (3.79 $\frac{3}{8}$) and Paris (9.56 $\frac{1}{2}$). The dollar finished fractionally firmer in these centres at 1.7585, 1.6187 and 4.0792 respectively. EMS contracted to 3 $\frac{3}{8}\%$ between the French franc and Italian lira (839.50). The Italians spent \$75mn., but the French took in \$50mn., the Germans \$15mn. and the Danes \$10mn. The yen turned softer again, closing at 218.70 in Tokyo and 219.20 in London.

Gold opened much firmer again around \$670 but once more met determined selling. The first fixing was \$664.50 and the metal was offered again down to \$658 once New York resumed. The later fixing, however brought some respite and set a level of \$663.50.

Operations:	Market	+	\$1mn.
	India	+	23
	Iran	+	20
	Iraq	+	12
	Sundries	+	7
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		+	\$63mn.
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