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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 7th July 1980

The dollar was hit today by a delayed reaction to Thursday's announcement of the phasing out of the Federal Reserve's credit measures. Sterling advanced as a consequence but turnover was not substantial. The ERI rose by 0.3 to 74.4. Gold remained very firm.

Sterling opened at 2.3580 (40 points above Friday's close) and, after touching 2.3560, traded narrowly in quiet markets around 2.36 until early afternoon. Then, as New York entered the lists, and the dollar weakened across the board, sterling began to move ahead. The publication of the wholesale prices index for June gave the pound a boost to 2.36½ and the rate forged steadily upward to close at 2.3733, the highest level of the day. In late business, sterling strengthened further against the dollar. Forward margins were unchanged, three-months' cover costing 6 9/16% p.a. With Euro-dollar rates a touch easier, the covered differential in favour of sterling widened to 3/16%.

Sterling was almost unchanged in Germany at 4.12¼, ¼% firmer in France (9.60¼) and ½% lower in Switzerland (3.76¼). The dollar finished weaker in all these centres but particularly in Switzerland, at 1.7395, 4.0457 and 1.5870 respectively, as, in the wake of the Fed's move, dealers looked for lower US interest rates. A number of major banks lowered their prime rate to join Morgan Guaranty and Bankers Trust, already at 11¼%. The Swiss bought \$45mn. and the Swiss franc firmed to 0.91½ against the mark. The Germans bought \$40mn., the Danes \$33mn. and the Irish sold \$13mn. EMS remained at 4% between the French franc and the lira (833.45) but the Italians again did not intervene. The yen closed at 219.05 in Tokyo and 218.07 in London.

Gold was again very firm but jibbed at breaking through the \$670 barrier until late trading when it touched \$675. Fixings were at \$665½ and \$667½.

Operations:	Markets	+	\$11mn.
	India	+	24
	Interest	+	9
	Sundries	+	3
	Greece	-	10
		+	<u>\$37mn.</u>

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