

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 14th July 1980

Despite a modest decline in the US monetary aggregates announced on Friday, Euro-dollar deposits were somewhat firmer today and the dollar gained a little ground in consequence. Otherwise there was little excitement: sterling, as usual, resisted the dollar's improvement better than most and the ERI was unchanged throughout at 74.5. Gold, however, encountered distress selling.

The pound closed at 2.3755 in New York on Friday, opened at 2.3754 today and traded quietly around that level through the morning, touching 2.3778 at one stage. New York returned to bid for dollars and sterling was sold down to 2.3720. However, the dollar did not hold its best levels and the pound recovered to close at 2.3744. Forward margins narrowed, the three-months' to 6½% p.a. discount. However, with sterling deposit rates rising late in the day, the covered differential finished at ¼% in London's favour.

The pound was unchanged in Paris (9.60), a little firmer in Frankfurt (4.13½) and nearly ¼% better in Zurich (3.80½). The dollar was a little better in all these centres at 4.0430, 1.7427 and 1.6030 respectively. EMS ended the day unchanged at 3¼% in width between the French franc and lira (830.95) but the Italians managed to recoup \$40mn. The yen closed at 218.25 in Tokyo and 218.22 in London.

Rumours of renewed US Treasury sales - subsequently denied - drove gold down to \$653 in Hong Kong this morning. London opened at \$660 but heavy selling from Switzerland and the Middle East pushed the price back to \$650 and, after token support around this level, an active fixing tested \$645 before settling on \$649. Declining oil prices - and their impact on the metal - were said to be the cause of the market's problems. US markets took gold back to \$642 but a long and tedious afternoon fixing produced a recovery to \$650. Once again, however, the metal was sold in the USA and the closing price in London was \$641.

Operations:	Market	-	\$2mn.
	Kenya	-	5
	Malta	-	5
	Interest	+	5
	Sundries	+	2
			<hr/>
		-	\$5mn.
			<hr/> <hr/>

JGH 14th July 1980.

JGH