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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 21st July 1980

A fairly quiet day saw sterling eventually find favour and finish on a strong note. The dollar tended easier. Sterling's ERI rose to 74.7.

The pound advanced to close at 2.3785 in New York on Friday but opened this morning at 2.3750. Sterling was sold out of Switzerland early this morning on what seemed an early bout of nervousness over MLR. With the dollar easing, however, the rate dipped no lower than 2.3725 and had recovered to opening levels by mid-day. Early this afternoon, some keen demand was evinced from Germany and the Middle East, possibly in preparation for Wednesday's new tap, and 2.3805 was paid for pounds at one stage. The dollar, however, staged a late recovery and sterling eased slightly to close at 2.3790. Dollar deposits lost some opening gains but sterling deposits were generally a touch firmer. Forward margins nonetheless narrowed, the three-months' to 6 $\frac{3}{8}$ % p.a. discount and this gave sterling an intrinsic premium of  $\frac{1}{8}$ %.

The pound closed a shade lower in Frankfurt (4.14 $\frac{1}{4}$ ) and  $\frac{1}{8}$ % off in both Paris (9.61 $\frac{1}{4}$ ) and Zurich (3.81). The dollar was easier in all these centres at 1.7417, 4.0432 and 1.6013 respectively. This probably owed something to Friday's monetary aggregates, growth in which was a little below some market expectations. Morgan Guaranty's  $\frac{1}{2}$ % reduction in Prime Rate to 11% (the first major bank to reach this level) threatened to weaken the dollar further but, in the event, the currency survived. EMS widened to 3 7/16%, the French franc regaining the lead and the lira (828.50) continuing to prop the band. The Italians, however, took in a further \$55mn., while the Danes bought \$5mn. and the Germans \$2mn. The yen closed at 219.86 in Tokyo and 220.31 in London.

Gold was somewhat better today and much less volatile. The fixings, however, still attracted good turnover, with a large buying interest this morning and a good balance - albeit tinged with some uncertainty - this afternoon. Fixing prices were \$620.75 and \$617.50.

Operations:	Market	-	\$10mn.
	India	+	19
	IDA	+	8
	Thanet DC		
	(PSB G'teed)	+	7
	Interest	+	6
	Botswana	+	5
	Iran	+	5
	Banladesh	-	12
	Sundries	-	1
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		+	\$27mn.
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*JGH* 21st July 1980.

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