

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 23rd July 1980

Strong professional demand kept the pound buoyant this morning and produced a record level (75.1) for the ERI. Otherwise, however, the market was fairly thin and commercial selling this afternoon brought sterling to close around the lower levels of the day's range. The dollar was a touch firmer following the Federal Reserve's open market operations yesterday. The yen weakened sharply on official prognostications of lower interest rates. Sterling's ERI closed at 75.0.

The pound closed at 2.3895 in New York yesterday and opened at 2.3876 this morning as the dollar firmed. Good buying interest from Germany saw sterling to 2.3885 on the early exchanges but, with this complete, it drifted back to trade without feature into the afternoon. Some commercial selling allied to professional squaring then depressed the pound 2.3832 but it recovered to close at 2.3846. Dollar deposits closed around  $\frac{1}{8}$ % better bid while sterling deposits were easier by a similar margin. Forward margins thus narrowed, the three-months' to 6  $\frac{3}{16}$ % p.a. discount and sterling's intrinsic premium fell to  $\frac{1}{8}$ %.

The pound was a little firmer in each of France (9.62 $\frac{1}{2}$ ), Switzerland (3.81 $\frac{1}{2}$ ) and Germany (4.14 $\frac{1}{2}$ ). The dollar, too, was a touch better in these centres at 4.0380, 1.5998 and 1.7397 respectively. Yesterday's draining operation by the Federal Reserve (with Federal funds at 8 $\frac{1}{2}$ %) provided the impetus for the improvement but today's Consumer Price Index (+1.0% in June) took off some of the gloss. EMS was unchanged at 3  $\frac{7}{16}$ % between the French and Italian (827 $\frac{1}{2}$ ) currencies. The Italians bought \$102mn., the French \$20mn., the Danes \$10mn.; the Norwegians took in \$86mn. outright forward. The yen weakened following a government statement that official interest rates would soon be reduced. It closed at 223.15 in Tokyo and 223.80 in London.

Gold gained \$15 in New York yesterday on a rumour that the Soviet Embassy in Tehran had been taken over. Although the rumour proved groundless, the metal held its gains today, as a good deal of panic, short-covering was provoked. The fixings set levels of \$632 and \$631.25 and revealed considerable potential selling pressure at the higher levels. Nevertheless, good commission-house demand in New York saw business at \$640 by the close.

Operations:	India	+	\$24mn.
	Interest	+	6
	Sundries	+	4
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		+	\$34mn.
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23rd July 1980.

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