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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 30th July 1980

After some profit-taking this morning, the dollar resumed a rapid technical recovery, fuelled now by a substantial rise in the index of leading indicators. Sterling continued to perform well against the other European currencies but the decline against the dollar brought the ERI back to 74.8.

The pound closed much lower in New York yesterday at 2.3625. This morning, however, the dollar suffered profit-taking. Sterling opened at 2.3658 and advanced to 2.3725 before settling. This afternoon the leading indicators sparked a renewed upward movement for the dollar. Sterling declined progressively and touched 2.3580 before closing at 2.3593. Later the IMM bid heavily for dollars on all fronts and the pound was traded down to 2.3410. The cost of three-months' cover fell to 5 15/16% p.a. and the covered differential was 1/8% in London's favour.

The pound gained 1/8% in France (9.67 1/2) and Germany (4.17 1/2) and 1/8% in Switzerland (3.86 1/2). The dollar closed at 4.1007, 1.7709 and 1.6372 respectively in these centres. Later in the US markets, however, the deutschemark traded to 1.7780 and the Swiss franc to 1.6465. The Federal Reserve sold \$10mn. for marks yesterday and the Bundesbank sold \$28mn. today. EMS narrowed sharply again to 2 11/16% between the French franc and lira (834 1/2). The Italian bought \$150mn. and the French took in deutschemarks equivalent to \$142mn. The Danes, too, purchased \$19mn. The yen closed at 225.90 in Tokyo and 226.35 in London.

Gold lost \$12 in New York yesterday. The metal was steady this morning and the price was fixed at \$636.50. This afternoon, however, gold declined again in the United States. The fixing in London was \$629 and the closing level around \$617.

Operations:	Market	+	\$1mn.
	Iraq	+	12
	Interest	+	6
	Kenya	+	6
	Sundries	+	3
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		+	\$28mn.
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