

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 31st July 1980

The exchanges continued in some turmoil today with frequent and sudden changes of direction. The unchanged Minimum Lending Rate brought another dimension to the market as sterling recovered on all fronts. By the end of the day, however, most rates were little different from yesterday's New York closing levels. Sterling's ERI finished a touch lower at 74.7 (after 74.4 this morning).

The pound eventually closed 1½ cents lower at 2.3435 yesterday in New York where the dollar finished around best levels. This morning, sterling opened at 2.3475 but soon softened as the dollar was bid up once again on interest rate considerations. Once European markets were fully under way the dollar advanced sharply. Sterling dropped very rapidly to 2.3245 before Central Bank intervention on the Continent induced profit-taking in the dollar. The pound recovered almost as quickly to 2.3380, around which level it steadied for the rest of the morning. With Minimum Lending Rate unchanged, sterling as usual returned to favour and was soon traded up to 2.3550. New York, however, bid strongly for dollars again and, with these conflicting influences, sterling seesawed down to 2.3335 and up again to close at 2.3440. Euro-dollar deposits were up to ¼% firmer at one stage but lost half their gains before the close. Shorter-term sterling deposits, however, finished harder by ¼%. The cost of three-months cover thus rose ¼% to 6 1/16% p.a. and sterling retained an intrinsic premium of 1/16%.

The pound was a fraction firmer in Paris (9.67%) and a little cheaper in Zurich (3.86) and Frankfurt (4.17%). The dollar closed at 1.6472 against the Swiss franc (after 1.6650) and 1.7815 against the deutschemerk (after 1.7927). The dollar's continuing recovery today was fuelled by yesterday's events in the US money market where Federal funds traded up to 11% - albeit on make-up day - without intervention by the Federal Reserve. On the exchanges, however, the US Authorities yesterday sold \$110mn. for marks and \$35mn. for Swiss francs. Today the Swiss sold \$45mn. and the Bundesbank spent \$70mn. EMS was unchanged in width at 2 11/16% between the French franc (4.1287) and lira (839.85). The French bought deutschemarks worth \$48mn. and the Italians took in \$130mn. The Irish purchased \$51mn. and the Danes \$6mn. The yen closed at 226.85 in Tokyo and 227.97 in London.

Gold remained soft and uncertain, trading between \$609 and \$620. Fixings were \$618 and \$614.25.

Operations:	Market	+	\$5mn.
	Interest	+	12
	Sundries	-	3
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		+	\$14mn.
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Overnight	-	\$9mn.
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The result for July is a reserve increase of \$100mn. to a level of \$28,272mn. after public sector debt repayments of \$35mn. (net) and a repayment of \$82mn. to the IMF under the oil facility. The overbought forward position was increased by \$49mn. to \$2,005mn. The effect of the renewal of the ECU swap with the EMCF was to increase reserves by \$58mn. and reduce the forward position by a like amount.

31st July 1980.

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