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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 1st August 1980

The exchanges remained thin and somewhat volatile today, although the atmosphere was decidedly less frenetic than in the last day or two. The dollar finished generally around recent best levels, spurred by the growing conviction that the Federal Reserve have tightened Monetary Policy. Sterling performed well against other European currencies but the ERI fell nonetheless to 74.5.

The Chicago IMM were heavy sellers of sterling yesterday and business took place down to 2.3255 before the pound recovered to close at 2.33. This morning, eurodollars were $\frac{1}{2}$ - $\frac{3}{8}$ better bid and the dollar opened stronger again. Sterling began at 2.3282 and drifted to 2.3240 on the early exchanges. When the domestic money market opened tight, however, the pound recovered swiftly. This trend - and the appearance of Central Bank selling in Germany - took the dollar into reverse and sterling traded up to 2.3392. This afternoon, Americans bid for dollars again and the pound retreated to 2.3290 before further official intervention reined the dollar in and sterling recovered to close at 2.3335. Three-month eurodollars finished firmer by 13/16%. Sterling deposits were a little harder too. Forward margins, however, narrowed but modestly, the three months' to $5\frac{1}{4}$ % p.a. discount. The covered differential swung to $\frac{3}{8}$ against London.

Sterling was a little firmer yet in France (9.69 $\frac{1}{2}$) and Germany (4.18) and $\frac{1}{2}$ better in Switzerland (3.87 $\frac{1}{4}$). The dollar closed in these centres at 4.1545, 1.7915 (after 1.7967) and 1.6620 (after 1.6660) respectively. Yesterday the Federal Reserve allowed Funds to trade to 10 $\frac{1}{2}$ before supplying reserves; today the rate reached 10 $\frac{1}{2}$ before the authorities intervened. In addition, a fractional increase only in U.S. unemployment (and a significant upturn in the numbers employed) gave further support to the dollar. The Federal Reserve yesterday sold \$40 mn. for marks and \$7 mn. for Swiss francs and were active from an early hour today. The Bundesbank sold \$70 mn. and a further \$80 mn. for Federal Reserve account. The Swiss, however, were content to let their franc slide. The French continued to restrain their franc by buying marks worth \$32 mn. They ceded leadership of the EMS to the Irish punt (2.1060) which closed 2 $\frac{1}{2}$ above the lira (843.90). The Irish bought \$21 mn. and the Italians \$50 mn. The yen defied the general trend, closing at 228 in Tokyo and 227.07 in London.

Gold was very quiet with the Swiss on holiday. Each fixing set a level of \$622.

Operations:	Market	+ \$4 mn.
	India	+ 12
	Iran	+ 10
	Interest	+ 5
	Botswana	- 9
	Sundries	- 2
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		+ \$20 mn.
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Overnight		+ \$18 mn.
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1 August 1980
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