

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th August 1980

The dollar advanced steadily through the day on the perception that the current low level of interest rates in the U.S. market was a technical aberration. The increase in Chase Manhattan's Prime Rate served to reinforce this view. Sterling was generally quiet but sporadic demand ensured that the pound remained relatively firm. The ERI rose to 75.3, matching its best ever level.

The pound closed at 2.3765 in New York yesterday and opened at 2.3738 this morning against a firmer dollar. Sterling continued to mirror the dollar's performance throughout the day, trading either side of 2.37 through the morning but easing rather more this afternoon. 2.3658 was the low point and 2.3677 the closing level. For once, the unchanged MLR had no effect. Eurodollars were firmer and sterling deposits softer. Forward margins narrowed in compensation, the three months to 6 3/16% p.a. discount, and the adverse covered differential fell slightly to 1/8%.

The pound gained 1/8% in both Paris (9.76 1/4) and Frankfurt (4.22) and 1/8% in Zurich (3.89 1/4). The dollar finished close to best levels in all three centres at 4.1230, 1.7824 and 1.6435 respectively. The Bundesbank sold \$50 mn. The French franc ruled the roost in EMS for most of the day but, after official purchases of Deutschmarks worth \$60 mn., the franc finished a little below the punt (2.1220) in the band. The lira (839.20) was 2 13/16% adrift. The yen closed at 225.15 in Tokyo and 225.67 in London.

Gold was steady and featureless. Fixings were \$632.50 and \$629.50.

Operations:	I.D.A.	+ \$15 mn.
	Government	+ 13
	India	+ 12
	Iran	+ 10
	Interest	+ 8
	Ghana	- 14
	Sundries	- 1
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		+ \$43 mn.
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J.G.H.