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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 8th August 1980

The rumoured increase in Saudi oil prices made for a stronger pound and dollar and a new record level for the ERI was published this morning (75.7). This took sterling to its highest level for nearly four years against the deutschemark and the approach of the 4.25 level - a key psychological barrier - drew out commercial and professional sellers of pounds. Overall, the ERI rose from 75.3 to 75.5.

The pound closed almost a cent higher at 2.3760 in New York yesterday after a newswire report that Saudi Arabia were considering a price increase and/or production cutback in oil. This morning sterling opened at 2.3737 and advanced to 2.3763 in the early exchanges. With the dollar better, too, this produced a level of 4.24½ against the deutschemark and ready sellers of sterling soon appeared. The pound eased gradually back to 2.3655 but recovered to trade around 2.37 for the remainder of the quiet day. Towards the close, the dollar faltered and sterling picked up to finish at 2.3730. Eurodollar and sterling deposits were barely changed. Forward margins, however, widened - the three months' to 6 5/16% p.a. discount - so that the covered differential moved out to ½% against London.

The pound gained ½% against the French franc (9.78½), ¾% against the deutschemark (4.23½) and ¾% against the Swiss franc (3.91½). The dollar was little changed in Paris (4.225), a touch better in Frankfurt (1.7840) and a good deal firmer in Zurich (1.6497). The French franc regained the pole position in EMS, 2 15/16% apart from the lira (840½). The French bought \$22 mn. of deutschemarks, the Dutch took in \$25 mn. and the Irish \$14 mn., while the Italians sold \$73 mn. The yen closed at 226.65 in Tokyo and 226.45 in London.

Gold was again quiet and steady. Fixings were \$631.25 and \$630.

Operations:	Market	+ \$3 mn.
	Kenya	+ 12
	Interest	+ 5
	Sundries	- 4
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		+ \$16 mn.
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8 August 1980  
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