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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 18th August 1980

Although the record increase in US money supply figures could well have been due to only transitory adversity, such as the timing of social security disbursements, the market saw them as a sign of higher American interest rates and therefore a blessing for the dollar, which rose sharply in New York in the final hour of trading before the weekend. It strengthened further today but sterling refused to be sacrificed and the ERI remained at 75.7.

The pound was quoted as low as 2.3615 at the close in New York on Friday but this was a thoughtless marking down and not the result of thoughtful business. Having started the week in London today at 2.3656 it eased to 2.3645 before climbing steadily to 2.3727 on rather insubstantial turnover. It had slipped below 2.37 just before the trade figures were announced. These were received with little excitement and the rate closed at 2.3687. Euro-dollars were marked up by as much as  $\frac{1}{2}\%$  in anticipation of some firmer Fed action but forward margins narrowed, to leave the covered differential unchanged at  $\frac{1}{2}\%$  in London's favour. Euro-dollars closed at  $10\frac{1}{4}\%$ , sterling interbank 16  $\frac{9}{16}\%$ .

Sterling rose by  $\frac{1}{2}\%$  against the deutschemark (4.26 $\frac{1}{2}$ ) and recorded further useful gains vis-à-vis the French (9.86 $\frac{1}{2}$ ) and Swiss (3.93 $\frac{1}{2}$ ) francs. The Fed have resumed action to slow the dollar's advance: they sold \$30mn. on Friday and a similar amount through the Bundesbank today, all against deutschemarks, which currency eased to 1.8019 (after 1.8037). The French bought deutschemarks equivalent to \$19mn. and the franc weakened to 4.1640, conceding the lead in the EMS to the punt (2.1020) - 3  $\frac{1}{16}\%$  above the lira (849.65). The Swiss franc's decline was a little steeper than that of EMS: it eased to 1.6624. In Tokyo the yen closed at 226.30; it was inactive in London and finished the day at 226.60.

Gold opened depressed by rumours of another series of US auctions (8 mn. ounces over 6 months). It had eased to \$617.25 in New York on Friday and lost further ground this morning, fixing at \$609.75. Although trading down to \$607.25 after lunch it rallied to fix at \$612.25 and later to \$616 on further talk of a holy war.

Operations:	Market	+	\$13mn.	
	India	+	24	
	Iran	+	24	(cancellation)
	IDA	+	12	
	Government	+	11	
	Interest	+	6	
	Zambia	-	7	
	Sundries	+	1	
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		+	\$84mn.	
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