

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 22nd August 1980

The rumour about hostages being shot in Iran manifested itself again this morning, causing both the exchange and gold markets some anxious moments before the ghost was laid to rest. Overnight the dollar had strengthened as a result of the Fed's action in selling customer securities to the market and of the consequent rise in Eurodollar rates. But sterling held firm and the ERI was once more at the record level of 75.7.

There was no activity in sterling in New York last night, the decline in the rate to 2.3635 reflecting the general dollar improvement. This morning saw the pound open 5 points lower. It had drifted to 2.3620 when the hostage rumour began to haunt the market and was promptly marked up to 2.3682 from which level it fluctuated only occasionally - and very little - before closing at 2.3678. Eurodollar rates opened some $\frac{1}{8}$ better bid and closed yet firmer: the three months was 11 7/16%. Sterling interbank rates also hardened, but to a lesser degree (16 11/16% at three months) and the covered premium for the pound was pared to $\frac{1}{8}$ p.a.

In Europe the pound became more expensive, closing in Germany at 4.27 $\frac{1}{2}$, in Switzerland at 3.95 and in France at 9.90 $\frac{1}{2}$: increases of about $\frac{1}{8}$ %. Elsewhere, the main interest lay in the lira and Norwegian krone. Last night the Fed had tempered the dollar's rise by selling \$55 mn.; today the Germans sold another \$10 mn. for Fed account and \$30 mn. for their own. The Italians spent \$150 mn. and the lira's decline was held at 857.85 (after 859.25 in mid-morning), EMS being stretched a little further to 3 9/16%. The punt recovered pole position, at 2.0940, the French franc having eased to 4.1820. The deutschemark lost over $\frac{1}{8}$ % to end the day at 1.8056. The Swiss franc was similarly affected, closing at 1.6683. The yen moved in a contrary way and firmed up to 223.72 in London. A further \$65 mn. was bought by the Norwegians to hold their krone close to 4.86.

Gold was nervous and traded between \$646 $\frac{1}{2}$ and \$654 $\frac{1}{2}$; in the fixings it was more settled, the prices being \$639.50 and \$639.20.

Operations:	Market	+	\$2 mn.
	Botswana	+	6
	Sundries	-	2
			=====
		+	\$6 mn.
			=====
Bank Holiday:		+	\$11 mn.
			=====

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