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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 26th August 1980

News of yet another North Sea oil discovery by Texaco pumped up sterling this afternoon and deflated the dollar (in spite of the increase in Chase's prime rate to 11½%); the ERI welled up to a new record of 75.8.

Markets were fairly quiet in New York on Friday evening and in all centres yesterday. The underlying tone for sterling was firm and it traded at 2.3735 in Europe yesterday, closing in New York at 2.3680. It opened in London today at 2.3708, edged back three points and then strengthened, jumping to 2.3780 at the close, shortly after Texaco's statement. Later it went above 2.38. As observers speculated on the latest US money figures and expressed fears of tighter monetary policy, Euro-dollars rose - heartened by the prime rate increase - to close at 11 15/16% for three months. Sterling interbank was unchanged and forward rates narrowed, resulting in a covered differential of 3/16% p.a. against London.

Further progress was made in Europe, sterling gaining ¼% against the deutschemark (4.28½) and over ½% in France (9.96¼). Since Thursday the Fed have sold a further \$65mn. Today EMS narrowed to 3¼%, with the punt remaining at the top, at 2.0920. The lira continued under pressure: \$90mn. was sold today, \$50mn. having been spent yesterday. It closed at 856%. The deutschemark improved to 1.8020 but the French franc was easier at 4.18 15/16. The yen continued its recent improvement and closed in Tokyo at 221.50 and London at 219.05. Good buying interest has been seen from the Middle East and, particularly from Hong Kong. The absence of any intervention enhances the attraction.

Gold found some sellers yesterday but held steady at the lower overnight levels in London today, fixing at \$629 and \$628.85.

Operations:	Market	+	\$10mn.
	Interest	+	6
	Botswana	+	5
	Bangladesh	-	12
	Government	-	11
	Sundries	-	2
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		-	\$4mn.
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	Overnight	+	\$5mn.
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