

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 2nd September 1980

The dollar suffered further losses today as interest rates continued to come off the top. Sterling established another five-year high against the dollar but closed below its best, since the new heights prompted profit-taking. The ERI finished the day unchanged at 76.5.

The dollar was well offered in Tokyo and the Far East this morning and sterling opened nearly half a cent better in London at 2.4114, advancing quickly to 2.4142 on the early exchanges. Conditions were not active but in mid-morning a London professional bid the pound up to 2.4178 in anticipation of later demands from the USA. This afternoon, Americans returned from holiday to drive interest rates lower and the dollar was again sold. Sterling rose to 2.4230 - another five-year high - but this level provoked fears of official intervention and profits were quickly taken. The pound retreated to close at 2.4172. Three-month euro-dollars lost a further  $\frac{1}{8}\%$  and forward margins widened - the three-months' to  $4\frac{1}{8}\%$  p.a. discount. This made for interest parity on the covered comparison.

As usual the traditional hard currencies gained most from the dollar's weakness and the pound shed  $\frac{3}{8}\%$  in Zurich (3.95 $\frac{1}{2}$ ) and  $\frac{1}{4}\%$  in Frankfurt (4.29 $\frac{1}{2}$ ) but only  $\frac{1}{8}\%$  in Paris (9.99 $\frac{3}{8}$ ). The dollar fell in these centres to 1.6350, 1.7775 and 4.1355 respectively. The Dutch florin (1.9380) continued to lead the EMS, 3 $\frac{3}{8}\%$  above the lira (847.75). The Belgians sold \$30mn. as their franc lost ground relative to the pack. Elsewhere, the Swedes lost a further \$80mn. but the Japanese bought \$7mn. in Tokyo where the yen firmed to 216.40. In London it closed at 215.97

Gold was a little better this morning in quiet trading: the fixing was \$632.25. This afternoon, New York bought the metal from the outset and an active fixing set a level of \$640.

Operations:	Market	+	\$8mn.
	Iran	+	\$5mn.
	Interest	+	\$5mn.
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		+	\$18mn.
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