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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 4th September 1980

Sterling met further professional selling this morning in anticipation of a reduction in Minimum Lending Rate but recovered strongly this afternoon once the rate was seen to be unchanged. Where changed, the dollar was easier, behind a further decline in Euro-dollar rates. The ERI closed unchanged at 76.5, having fallen this morning to 76.1.

The pound was sold down to 2.4060 in the United States yesterday before finishing in New York at 2.4115. This morning professional sellers were active from an early hour and sterling began at 2.4075 in London, falling to 2.4055 on the opening exchanges. The pound soon recovered, however, partly in tandem with the dollar, partly as hopes of a cut in MLR began to wane and partly on a suspicion of official support. Sterling traded around 2.41 through to mid-morning but then resumed its upward movement as positions were squared in advance of the MLR announcement. By that time the pound had almost reached 2.42 and, on confirmation of the unchanged rate, it went on to reach 2.4235 before closing at 2.42. American traders were inactive. The cost of three-months' cover finished unchanged at 4 11/16% p.a. but with Euro-dollars a further 1/8% off, sterling's intrinsic premium rose to 7/16%.

The pound was a touch lower in Germany (4.29 $\frac{1}{2}$), Switzerland (3.93 $\frac{3}{4}$) and France (9.98 $\frac{3}{4}$). The dollar, too, fell in each of these centres to 1.7750, 1.6272 and 4.1265 respectively. The Swiss bought \$25mn. late yesterday but were idle today. The Bundesbank took in \$6mn. EMS remained 3 11/16% wide between the florin (1.9313) and lira (845.25). The Dutch bought \$25mn. In Scandinavia the Swedes sold \$90mn. and \$11mn.-worth of marks, while the Norwegians took in \$50mn. The yen firmed to 216.70 in Tokyo and 216.65 in London.

After a quiet and steady morning session, with a fixing at \$637.25, gold was strongly bid from New York this afternoon. The fixing set a level of \$647.25 and the London market closed a touch firmer still.

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|-------------|--------|---|-------------|
| Operations: | Market | + | \$15mn. |
| | Iran | + | 5 |
| | Greece | - | 8 |
| | | | <hr/> |
| | | + | \$12mn. |
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