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THE DEPUTY GOVERNOR

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FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 5th September 1980

A dull end to the week. The dollar improved somewhat as interest rates turned up again but sterling traded in a narrow range. The ERI set a record 76.7 this morning but closed unchanged overall at 76.5.

The dollar advanced against all currencies save sterling in New York yesterday. The pound closed there at 2.4215. This morning, Euro-dollars opened firmer and the dollar continued to improve. Sterling opened at 2.4180 and quickly settled down to trade in a narrow range around 2.4165 through the morning. This afternoon's US indicators - a reduction in unemployment, a 1½% increase in the Producer Price Index and a ½% increase in Citibank's Prime Rate to 12% - all made for a better dollar, although in the event, the movement was largely discounted. The pound tended easier, touching 2.4115 at times, but recovering to close untroubled at 2.4155. With the rise in Euro-dollar rates, forward margins narrowed, the three-months' to 4 9/16% p.a. discount. Sterling's intrinsic premium was reduced to 3/16%.

The pound gained a little ground in France (9.99¼), Germany (4.30) and Switzerland (3.94½). The dollar improved in all these centres to 4.1395, 1.78 and 1.6330 respectively. EMS widened slightly to 3¼% between the florin (1.9350) and lira (847.75). The Dutch bought \$15mn. and the Irish \$2mn. Elsewhere, the Swedes sold \$106mn. and the Norwegians bought \$22mn. The yen eased to 218.70 in Tokyo but recovered to 218.10 in London.

Having breached \$650 in the Far East this morning, gold opened without any definite trend and was fixed at \$647.50. Americans were again bullish, however, and the price touched \$654 before fixing at \$651 this afternoon.

Operations:	Market	+	\$6mn.
	BIS o/a India	+	12
	Interest	+	5
	Bangladesh	-	12
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		+	\$11mn.
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