

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 15th September 1980

Weekend press suggestions of an imminent reduction in M.L.R. brought widespread selling of sterling this morning. Expectations - later fulfilled - of further good trade figures made for some recovery and the pound closed comfortably. Nevertheless the ERI fell on the day from 76.2 to 75.6.

The pound fell nearly a cent in New York on Friday as a large commercial selling order hit a thin market. Sterling closed there at 2.4055. European traders were surprised to find sterling so depressed this morning and this contributed, in part, to the currency's early weakness. With several newspapers portending a swift reduction in interest rates, sterling found ready sellers and, after opening in London at 2.4010, fell rapidly, to 2.3873 before steadying. The flow of funds was evidently directed into Continental Europe since, as the selling of pounds diminished, so the dollar weakened from a firm start. This in itself gave impetus to sterling's technical recovery and, as profits were taken, the rate bounced back to 2.3970 at one stage. Early Americans then picked up the earlier trend and sterling eased again to 2.3875. By mid-afternoon, however, the market began to anticipate a good set of trade figures and the pound was bid up to 2.3925 by the time of the announcement. After an immediate mark-up to 2.3945, profits were culled again and sterling reverted to close quietly at 2.3922. Forward margins narrowed sharply on interest-rate expectations - the three-months' falling to 3 7/16% p.a. discount but, with deposit rates failing to converge to the same extent, the covered differential rose to 5/16% in London's favour.

The pound lost 1/4% in Zurich (3.91 1/4) and 3/8% in both Paris (9.91 1/2) and Frankfurt (4.26 1/2). The dollar was modestly firmer in all these centres at 1.6352, 4.1455 and 1.7840 respectively. With the rise in the monetary aggregates exceeding most expectations, Euro-dollars opened higher and buoyed the dollar throughout the session. EMS remained 3 11/16% spread between the florin (1.9382) and lira (848.35). The Dutch took in \$25mn. Elsewhere the Swedes sold \$23mn., the Norwegians bought \$26mn. and the Danes garnered \$5mn. With Tokyo closed, the yen continued very firm and touched 210.80 in London before a reaction set in and the currency eased to close at 212.65.

Gold was soft for much of the day, despite several bursts of buying activity in silver. Following Friday's sharp fall, many operators found this trend surprising but it owed much to a technical situation vis-a-vis the futures contracts. Fixings were \$672.50 and \$666.50.

| | | | |
|-------------|----------|---|--------|
| Operations: | Market | - | \$9mn. |
| | Ghana | - | 14 |
| | Iran | + | 13 |
| | Sundries | + | 1 |
| | | - | \$9mn. |

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