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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 17th September 1980

The exchanges were fairly quiet and steady today despite a great deal of confusion and disarray emerging from the OPEC meeting. The dollar continued soft and this encouraged further short-covering in sterling, which recovered strongly from a weak start. The ERI closed unchanged at 75.5.

The pound was sold again in New York yesterday and closed there at 2.3830. This morning it opened at that same level but, with the dollar starting easier, soon ran into demand from Swiss and London banks. By mid-morning the pound had crested 2.39 and, when Americans returned early to cover short positions, it rose rapidly to 2.3975, having comfortably absorbed the conversion of a large part of the recent "bulldog" issue. Thereafter, however, sterling drifted off. The Saudi declaration of no immediate production cut-back clearly reinforced the trend and sterling was back to 2.3897 by the close. Later, however, rumours of war between Iran and Iraq and signs of a peace formula in the dock dispute drove the pound up to 2.3960. Euro-dollar and sterling deposits were both softer but, with the cost of three-months' cover declining to 3 7/16% p.a., sterling's intrinsic premium rose to 7/16%.

The pound lost 1/8% against the French franc (9.89%) and deutschemark (4.25%) and 1/8% against the Swiss franc (3.89%). The dollar eased against these currencies to 4.1410, 1.7806 and 1.6290 respectively. The dollar's softness remains puzzling. The continued strength of the yen is clearly exerting some general downward pressure and yesterday's increase in Industrial Production may have been smaller than many had expected. However, interest rates have remained firm until this afternoon, when Federal Funds, albeit on a make-up day, fell to 9 1/2% and the dollar gained surprisingly little comfort from the outcome of the OPEC meeting. EMS narrowed to 3 1/8% between the florin (1.9368) and lira (847.25) after purchases of \$30mn. by the Dutch and sales of \$50mn. by the Italians. Elsewhere, the Swedes sold \$35mn. and the Norwegians bought \$100mn. The yen met strong professional demand yesterday in New York where the Japanese bought \$200mn. In Tokyo this morning it closed at 211.60 - the authorities taking in a further \$41mn. - and went on to 210.92 in London before finishing at 211.65.

Gold rallied in New York yesterday and held its gains this morning. The fixing was \$678.25. This afternoon, the metal was sold following the failure of the hawks at the OPEC meeting and the price was fixed at \$673. Later there was some recovery on rumours of the conflict between Iran and Iraq.

Operations:	Market	+	\$12mn.
	France o/a Nigeria	+	30
	Kenya	+	24
	Denmark	-	72
	Sundries	-	2
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			\$8mn.

*JGH* 17th September 1980.

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