

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 18th September 1980

The  $\frac{1}{2}\%$  reduction in German Lombard rate (to 9%) had little immediate impact but later, in conjunction with an upward trend in US interest rates, it provoked a strengthening in the dollar. Sterling resisted the trend at first but was later sold down. Nonetheless, the ERI rose slightly to 75.6.

The pound closed quietly in New York yesterday at 2.3915 and opened this morning at 2.3940 in response to a weaker dollar, rising to 2.3965 on the early exchanges. The dollar then steadied and turned but sterling lost ground progressively, falling to 2.3882 before recovering to opening levels by early afternoon. The improved prospect of a settlement in the dock dispute seemed to have been discounted yesterday. MLR had little impact and the surprise settlement at the OPEC meeting was taken neutrally for sterling. The improvement in the dollar's fortunes had no effect on the pound at first but, once the Money Supply was announced, minds seemed to concentrate, and sterling was widely sold. Dealers felt that lower interest rates in Europe - Danish Bank Rate, too, was cut by 1% to 12% - could only facilitate the reduction in MLR. Sterling was sold down to 2.3835 before recovering to close at 2.3844. Sterling deposits were up to  $\frac{1}{4}\%$  easier, Euro-dollars a touch firmer. Forward margins narrowed - the three-months' to 3  $\frac{5}{16}\%$  p.a. discount - but not sufficiently to compensate for the convergence in deposit rates. The covered differential thus fell to 3/16% in London's favour.

The pound gained  $\frac{1}{4}\%$  in Paris (9.92 $\frac{1}{4}$ ),  $\frac{3}{8}\%$  in Frankfurt (4.27) and nearly  $\frac{1}{2}\%$  in Zurich (3.91). At one stage, of course, these gains were considerably larger. The dollar firmed in each of these centres to 4.1612, 1.7907 and 1.64 respectively. EMS narrowed to 3 $\frac{1}{2}\%$  as the lira (850.55) improved. The Dutch bought \$10mn.; their guilder was 1.9462 at the close. Elsewhere, the Norwegians took in a further \$75mn. but the Japanese were inactive. The yen weakened to 212.05 in Tokyo and 212.95 in London. The OPEC agreement may have adversely affected the currency but the movement was largely a natural reaction, in particular to the volume of recent official intervention.

Gold moved narrowly around yesterday's closing levels, awaiting a definite trend. Fixings were \$674 and \$672.

Operations:	Market	-	\$18mn.
	Iran	+	10
	Sundries	-	1
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		-	\$9mn.
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18th September 1980.  
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