

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 19th September 1980

The dollar continued to blaze away today behind yesterday's reductions in European interest rates. A very large commercial seller of French francs fanned the flames and a $\frac{1}{2}$ % cut in Dutch Discount and Lombard rates added further fuel to the fire. Finally a $\frac{1}{4}$ % increase in some major US banks' Prime Rates would have reinforced the trend but profits were taken at this juncture and the dollar closed below its best. Sterling and the yen resisted the movement, isolated, it would seem, from both the EMS and the tendency for lower interest rates. Sterling's ERI was unchanged at 75.6.

The pound closed at 2.3835 in New York yesterday and opened at 2.3842 this morning. Having dipped to 2.3822 on the early exchanges, sterling recovered to 2.3873 by mid-morning before settling to trade out the rest of the day very quietly around the opening level. The close was 2.3855. Forward margins narrowed a touch - the three-months' to $3\frac{1}{4}$ % p.a. discount - but Euro-dollar and sterling deposits were unchanged and the covered differential rose to $\frac{1}{4}$ % in London's favour.

Sterling gained $\frac{1}{8}$ % in each of Zurich (3.92 $\frac{1}{2}$), Paris (9.96 $\frac{1}{2}$) and Frankfurt (4.28 $\frac{3}{4}$). The dollar closed at 1.7957 in Germany (after 1.8007), 1.6445 in Switzerland (after 1.6478) and 4.1762 in France (after 4.1865). Yesterday the Federal Reserve sold \$31mn. for marks and today the Bundesbank shelled out \$110mn. in defence of their currency. EMS narrowed to $3\frac{3}{8}$ % between the florin (1.9560) and lira (853.55) following the cut in Dutch Discount Rate to $8\frac{1}{2}$ % and in Lombard rate to 10%. The Danes sold \$28mn. to soak up pressure in the wake of yesterday's Bank Rate change. The yen closed at 212.45 in Tokyo but then firmed sharply to 210.95 in London.

Gold remained steady and featureless. Fixings were \$674.50 and \$674.

Operations:	Market	-	\$1mn.
	BIS	+	36
	Government	-	8
	Sundries	+	6
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		+	\$33mn.
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