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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 22nd September 1980

The escalation of the conflict between Iran and Iraq made for a stronger pound and dollar this morning. This afternoon Americans were aggressive buyers of both currencies, with the yen particularly well offered, and sterling set a four-year high against the deutschemark. The ERI rose from 75.6 to 76.5. Gold swept through the \$700 level.

The pound closed at 2.3865 in New York on Friday but opened at 2.3943 this morning following a mark-up in the Far East on the situation in Iran. For most of the morning both sterling and the dollar fought to consolidate their gains and the pound touched 2.3926 at one stage. Good demand was seen from Switzerland on the early exchanges but, as before, the DM 4.30 level proved a hurdle which the market was unwilling to surmount. Late in the morning, however, the appetite for pounds and dollars was whetted again and, with returning Americans avid takers, both currencies advanced from strength to strength. 2.4035 was paid for sterling shortly before the close was struck at 2.4020. Euro-dollars were a touch firmer in the wake of Friday's increases in US monetary aggregates and sterling deposits were considerably better bid. Forward margins widened, the three-months' to 3 7/16% p.a. discount, and the covered differential remained at 1/4% in London's favour.

The pound gained 1% in Paris (10.06 1/2), 1 1/4% in Frankfurt (4.34, after a four-year high of 4.34 1/2) and 1 1/2% in Zurich (3.98 1/2). The dollar finished around the day's best levels in these centres at 4.1905, 1.8070 and 1.6575 respectively. The Bundesbank sold \$30mn. EMS narrowed to 3 1/4% between the florin (1.9629) and lira (855 1/4) after official Italian sales of \$62mn. The yen closed at 212.55 in Tokyo but then weakened sharply to finish at 214.90 in London.

Gold breached \$700 in the Far East this morning but then suffered profit-taking. The metal traded around \$700 in London but with little inclination to break through that level and the price was fixed at \$698.75. This afternoon, however, American demand provided the necessary impetus to clear that barrier and the fixing set a level of \$710 with very heavy turnover. Later the metal surged forward again and closed in London at \$718.

Operations:	Market	+	\$5mn.
	BIS	+	12
	Sundries	-	2
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		+	\$15mn.
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