

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 23rd September 1980

The conflict in the Middle East continued to dominate the exchanges today and markets were tossed hither and thither in response to a host of rumours and reports, whether confirmed or unfounded. Sterling quickly reached quite unrealistic levels against the Continental currencies and these encouraged considerable professional selling which took much of the wind out of the pound's sails and, in the process, deflated another strong surge by the dollar. Sterling's ERI finished a little higher at 76.7 after setting a new record 77.3 this morning.

The pound was bid up to 2.4125 in New York yesterday before closing there at 2.4062. With no let-up in the hostilities between Iran and Iraq, sterling and the dollar raced ahead from an early hour this morning. The pound opened in London at 2.4147 and, in a thin and nervous market, advanced quickly to 2.4220. This level - itself only a fraction shy of the five-year high - triggered several other chartist points: in particular, the Swiss franc (4.02½) was well past the 4.00 barrier for the first time in nearly four years, while the sterling/mark rate, which had very recently baulked at 4.30, was now facing 4.40. All this, and some forceful selling of dollars by the Bundesbank in support of the mark, turned market sentiment and professionals moved to set up short sterling positions against the Continental currencies. The pound went into retreat and soon shed over a cent. A report (from Baghdad!) that the Iranians had unconditionally released the US hostages served to accelerate sterling's decline and the rate dropped to 2.3960 before steadying. The afternoon saw less movement at first but the market remained nervous. Sterling hovered around 2.40 for a while but then came back into demand and was bid up to 2.4095 again. This level, however, provoked selling from New York and Chicago and the pound saw-sawed back to 2.3990. Finally, the news that the oil refinery at Abadan was on fire brought a swift mark-up to 2.4040 before the pound closed at 2.4022. Forward margins narrowed as Euro-dollar rates moved sharply firmer. Three-months' cover cost 3¼ p.a. and sterling's intrinsic premium was 5/16%.

The pound closed on balance a little firmer in Zurich (3.98½) and ¼ better in both Paris (10.09½) and Frankfurt (4.35). The dollar made further gains in each of these centres, closing at 1.66 (after 1.6652), 4.1995 (after 4.2212) and 1.8105 (after 1.8185) respectively. Yesterday, the Federal Reserve sold \$50mn. for marks. Today the Bundesbank sold \$80mn. on Federal Reserve account, while the French bought deutschemarks worth \$28mn. EMS widened to 3 9/16% between the guilder (1.9668) and lira (860). Elsewhere, the Norwegians took in \$32mn. Tokyo was closed. The yen weakened sharply in London to 217.50.

Gold had another very active day, fluctuating in response to all the various rumours and reports. Having gained \$10 (to \$720) in New York yesterday, it fell to \$705 at one stage in Hong Kong but was bid up to \$720½ at the fixing in London this morning, only to fall to \$705 again on the rumoured release of the US hostages. Very heavy turnover again characterised the later fixing which eventually set a level of \$711. However, the selling pressure evident at the fix was swept aside by the news from Abadan and the metal went out at \$720.

Operations:	Market	+	\$45mn.
	Iran	+	15
	Iraq	+	12
	Government	-	13
	Sundries	-	2
		+	\$57mn.

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