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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 26th September 1980

The exchanges were fairly active today, especially this afternoon when a further plethora of rumours and statements emanated from the Middle East. The overnight increase in the Federal Reserve Discount Rate (by 1% to 11%) made for a firmer dollar. Sterling resisted this movement better than most but was sold down again after the close. The ERI finished the day unchanged at 76.1.

The pound closed at 2.3960 in New York yesterday after business up to 2.4005. The dollar was firmer on interest rate grounds and added modestly to its overnight gains this morning through an uneventful session. Sterling opened at 2.3985 and soon settled into a narrow trading range around 2.3960. Early this afternoon both dollar and pound were bid up following the rumour that Iraq had ceased oil exports. Sterling touched 2.4005 but retreated quickly again on the OPEC declaration that they would make good any shortfall. Prime rate increases lent some support to the dollar and tended to push sterling lower. The pound declined to 2.3910 before recovering to close at 2.3945. After the close the market felt the impact of a large Central Bank selling order (which earlier seemed comfortably absorbed) and sterling was traded down to 2.3905. Euro-dollars were  $\frac{1}{2}\%$ - $\frac{3}{4}\%$  better bid. Sterling deposits were a little firmer too. Forward margins narrowed sharply - the three-months' to 2 $\frac{1}{2}\%$  p.a. discount - but the covered differential moved to 1/16% against London.

The pound gained  $\frac{3}{8}\%$  in Frankfurt (4.32 $\frac{3}{4}$ ) and  $\frac{1}{2}\%$  in both Paris (10.02 $\frac{3}{4}$ ) and Zurich (3.94 $\frac{1}{4}$ ). These gains were lost after the close. The dollar firmed in these centres to 1.8048, 4.1885 and 1.6465 respectively. The Bundesbank sold \$10mn. on Federal Reserve account and \$42mn. for their own account. EMS narrowed to 3 $\frac{1}{4}\%$  but only after Italian sales of \$119mn. The lira weakened after the apparent cessation of Iraqi oil supplies. The florin closed at the head at 1.9615 and the lira (860) at the tail. The French bought marks worth \$39mn. and swapped out \$25mn., the Belgians sold \$8mn. and the Danes took in \$9mn. The yen firmed sharply on foreign portfolio investment buying. It closed in Tokyo at 212.90 and in London at 212.47.

Gold eased before the stronger dollar and was fixed at \$697 and \$698.75. Late in the day the price slumped to \$685 following rumours of a planned conference between Iran and Iraq.

Operations:	Market	+	\$3mn.
	Interest	+	8
	IDA	+	6
	Sundries	+	5
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		+	\$22mn.
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	Overnight	-	\$3mn.
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