

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 2nd October 1980

After a featureless session this morning, the dollar received a boost from the Citibank prime rate increase to 14% and ended stronger on balance. The pound held up better than most, although the ERI edged down to 75.7

Chicago were buyers of sterling in mid-evening yesterday and sterling rose to 2.3955 in New York before closing at 2.3935. In London today it began at 2.3898 and drifted lower in listless conditions. A rally over the lunch hour took the rate to 2.3905 but the prime rate increase was then announced, pulling sterling down to 2.3837 before closing at 2.3854. Eurodollars opened at lower levels (up to $\frac{1}{2}$ % down) but rallied to close for 3 months at 13 $\frac{3}{4}$ %. The covered premium for London was a touch wider, however, at 5/16% p.a.

There was little change in sterling's position in Europe: a slight gain in Germany (4.32) but slight losses in Switzerland (3.92 $\frac{1}{2}$) and France (10.01 $\frac{1}{2}$). The dollar opened quite weak - 1.8047 against the deutschemark, for example - but strengthened gradually this morning and more speedily this afternoon. It closed in Frankfurt at 1.8113, the Germans having sold \$20 mn. In EMS the lira was in trouble, requiring sales of \$145 mn. to cushion its decline to 861 $\frac{1}{2}$, some 3 $\frac{1}{2}$ % below the florin (1.9661). The French franc eased to 4.1985, the Swiss franc to 1.6447. The yen remained a favoured haven, closing at 208.20 in Tokyo (where the Bank of Japan bought \$105 mn.) and 207.90 in London, after 206.75.

Gold was erratic, after moving down in Far East markets. The first London fixing was at \$675.75. A sharp fall (to \$662) occurred as the second fixing was about to start and this left the market unsettled. After fixing at \$665.75 the price later improved to \$670.50.

Operations:-	Market	+ \$ 9 mn.
	Iran	+ 10
	Sundries	+ 3
		<hr/>
		+ \$22 mn.

2nd October 1980

D.A.H.B.

Lang