

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 6th October 1980

The dollar lost a good deal of ground today following Friday's publication of sizeable declines in the US monetary aggregates and a subsequent  $\frac{1}{2}$ % fall in Euro-dollar deposit rates. Sterling attracted keen interest at times but sellers were usually predominant. The ERI closed unchanged at 75.8.

The dollar was marked down savagely in New York late on Friday and sterling gained all of two cents to close there at 2.4100. This morning, however, despite the dollar's continuing softness, the pound was sold in Far Eastern markets and opened in London at 2.4021. The early exchanges were active, but sellers, from Switzerland and the Middle East especially, held the upper hand as opinion polls, interest rate expectations and the oil supply situation combined to depress sentiment. Sterling backed off but quickly established a support level a little above 2.3950 and traded quietly through the rest of the morning. Americans began by taking pounds and the rate rose to 2.4005. The afternoon session saw good, two-way trading but once again offerings proved more numerous and the pound retreated gradually to 2.3939 before closing at 2.3957. Forward margins widened - the three-months' to 2 5/16% p.a. discount - in the wake of the fall in Euro-dollar rates. Sterling's intrinsic premium rose to 5/16%.

The pound lost  $\frac{1}{2}$ % in Germany (4.31 $\frac{1}{2}$ ) and  $\frac{1}{2}$ % in each of France (10.00 $\frac{1}{2}$ ) and Switzerland (3.91 $\frac{1}{2}$ ). The dollar fell in these centres to 1.7995, 4.1753 and 1.6331 respectively. EMS widened at first but closed a little more relaxed at 3 11/16% after official Italians sales of \$114mn. The lira finished at 856.80 and the florin at 1.9576. The Belgians, too, sold \$49mn. as the Benelux worm expanded. Elsewhere, the Swedes sold \$20mn. but the Japanese took in \$140mn. (after additional purchases of \$64mn. in New York on Friday). The yen closed at 206.90 in Tokyo but reacted to 208.28 in London.

Gold recovered all and more of Friday's losses following developments in the Middle East. Fixings were \$671.50 and \$675.50.

Operations:	Market	+	\$8mn.
	Interest	+	17
	BIS	+	12
	Ghana	-	8
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		+	\$29mn.
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