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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 9th October 1980

The dollar danced to the tune of an oscillating yen today. Sterling was an innocent bystander for much of the morning but met good demand from the USA this afternoon and closed on a high note. The ERI rose to 76.1.

Latent demand for pounds, evidently suppressed by yesterday's large selling order, emerged in New York yesterday and sterling closed there at 2.3960. This morning, the unusual weakness of the yen in Far Eastern markets made for a generally stronger dollar and the pound opened in London at 2.3906, drifting to 2.3885 before steadying to settle around opening levels. The morning was quiet and characterised by modest two-way commercial business. The unchanged Minimum Lending Rate may perhaps have firmed the undertone but the yen was already hardening by then and the dollar turned easier in its wake. Sterling moved higher and soon attracted good buying interest both on commercial account and from the United States. The rate advanced progressively to 2.3990 before finishing at 2.3985. Forward margins narrowed this morning but widened again later. The cost of three months' cover was unchanged at 2 3/16% p.a. The covered differential was 3/16% in London's favour.

The pound was a touch firmer in Switzerland (3.92½) and ¼% better in both France (10.03½) and Germany (4.32½). The dollar eventually closed little changed in Germany (1.8045) and France (4.1839) but was easier in Switzerland (1.6350). Yesterday the Federal Reserve sold \$10 mn. for marks and \$5 mn. for French francs. Today the Bundesbank sold \$10 mn. for American account and \$2 mn. on their own behalf. EMS remained 3¼% in width between the guilder (1.9627) and lira (859.82). The Italians bought \$15 mn. and the Belgians sold \$50 mn. The yen weakened sharply in Tokyo this morning, supposedly on reports that a tanker had been sunk in the Straits of Hormuz. It closed there at 210.30 but recovered in London to 208.92.

Gold was much more active today and gained considerable ground. Fixings were \$681.75 and \$690.

Operations: Market	+	\$ 7 mn.
Iran	+	30
Interest	+	11
Sundries	+	2

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+ \$50 mn.
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Overnight:	+	\$ 7 mn.
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