

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 15th October 1980

The dollar made further extensive gains today, setting six-month high levels against the deutschemerk and other European currencies. Sterling again withstood the dollar's advance. The market, however, was not active and the trade figures, while exceeding all expectations, served only to confirm the underlying firmness. Sterling's ERI rose to 76.6, after 76.7 at mid-day.

The pound slipped to 2.4055 yesterday in New York where the dollar closed a good deal firmer. This morning, sterling opened at 2.4058 and held centre stage for the first part of the morning in the face of an unchanged dollar. Further demand for pounds, no doubt associated with the buoyancy in gilts, took the rate to 2.4098 (and deutschemerk 4.40) before the dollar set out on another strong upward surge and sterling was stopped in its tracks. Average earnings were not encouraging and the pound retreated to 2.4010 this afternoon - albeit keeping pace with the deutschemerk - before the dollar paused for breath, checked again by official support for the mark. Dealers then turned to focus on the coming trade figures and, amid general expectations of a useful surplus, sterling was marked up. In the event, the announcement surpassed the wildest hopes but the market was evidently done for the day and sterling, already by then at 2.4082, saw only modest two-way business before closing at 2.4084. Reflecting an unusually tight Funds market in New York, Euro-dollars put on another  $\frac{1}{2}\%$  or so. Forward margins narrowed in compensation - the three-months' to  $2\frac{3}{8}\%$  p.a. discount - and the covered differential remained fractionally in London's favour.

The pound gained  $\frac{1}{8}\%$  on the Swiss franc (3.96 $\frac{1}{2}$ ),  $\frac{1}{2}\%$  on the French franc (10.16 $\frac{1}{2}$ ) and  $\frac{3}{8}\%$  on the beleaguered deutschemerk (4.40). Yesterday, the Federal Reserve sold \$74mn. for marks. Today the Bundesbank sold \$80mn. for American account and a further \$79mn. for themselves. The deutschemerk eased to 1.8267 (after 1.8333). The Swiss franc weakened to 1.6480 (after 1.6554) and the Swiss franc/deutschemerk cross-rate fell below 0.90 $\frac{1}{2}$ . EMS widened to 3 11/16% between the French franc - 4.2190 after 4.2360 - and lira (866.35) but only after Italian purchases of \$100mn. For their part, the French bought a cocktail of \$30mn., \$14mn. of deutschemerk and \$8mn. of Swiss francs. The Danes bought \$15mn. but the Irish sold \$10mn. as the punt fell precipitately down the band. The yen reacted to its recent strength, easing to 207.20 in Tokyo this morning and 207.25 (after 208) in London.

Gold staged a technical rally in New York yesterday and held its gains today, the continued fighting in the Middle East providing some impetus. Fixings were \$676.25 and \$678.

Operations:	Market	+	\$20mn.
	South Africa	-	12
	Sundries	+	5
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		+	\$13mn.
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	Overnight	+	\$7mn.
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*JGH* 15th October 1980.

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