

* THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTHURSDAY 16TH OCTOBER 1980

Sterling continued very firm today as widespread demand was again rekindled by the announcement of an unchanged Minimum Lending Rate. The dollar, which had eased following yesterday's money market assistance by the Federal Reserve, resumed its upward path this afternoon, partly in response to a slight easing of monetary conditions by the Bundesbank and partly through its role as a vehicle into sterling. The ERI rose to a record closing level of 77.0 and new recent high points were set against several major currencies.

The pound closed at 2.4115 yesterday in New York where the dollar was generally softer following the Federal Reserve's outright purchase of Treasury Bills in the open market for system account. This morning sterling opened at 2.4102 and, as the dollar began a gentle recovery, drifted back. The Swiss were small, early sellers of pounds, probably as a precaution against a cut in MLR. Sterling had fallen to 2.4053 by mid-morning but then, as dealers turned to focus on the Bundesbank Council meeting, the view gained hold that Discount Rate would not be reduced and the dollar turned softer. Sterling recovered to 2.4097, supported by some sizeable demand on Central Bank account. The Bundesbank's DM. 3 bn. increase in rediscount facilities and the unchanged MLR in London both worked to firm the pound and dollar but only when U.S. markets reopened were the currencies aggressively bought. Sterling was slow to move at first, but picked up later to close at 2.4153 and trade on as high as 2.4170. Eurodollars were easier by up to $\frac{1}{8}\%$; sterling deposits were firmer by $\frac{1}{8}\%$ or more. The three months' forward discount widened to $2\frac{3}{8}\%$ p.a. in sympathy and the covered differential advanced to $3/16\%$ in London's favour.

The pound gained almost $\frac{1}{8}\%$ in each of France (10.20%), Switzerland (3.98%) and Germany (4.42%). Against the deutschemark, sterling closed at its best level for over four years; so also against the guilder (4.79%). In Paris, the pound finished at a $5\frac{1}{2}$ -year high, while in Milan (2094%) the close was an all-time record. The dollar's renewed upsurge owed something to a continuing tightness in Federal funds and a 1% increase in Industrial Production in September, which was rather more than expected. It closed at 1.8298 in Frankfurt and 1.6508 in Zurich. The Bundesbank sold \$30 mn. for Federal Reserve account. EMS was $3\frac{3}{8}\%$ stretched between the French franc (4.2260) and lira (867.30). The French bought \$16 mn. and \$15 mn. of marks. The Irish sold \$12 mn. The yen closed at 207.80 in Tokyo and 208.06 in London.

Gold lost ground in New York yesterday but traded steadily and without feature today. Fixings were \$673.50 and \$674.

Operations:	Market	+ 27 mn.
	Iran	+ 45
	B.T.S.	+ 36
National Water Council		+ 18
(P.S.B. G'teed)		
	Interest	+ 7
	Sundries	- 3
		<u>+ 130</u>