

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 20th October 1980

Dollar and pound strode hand-in-hand to new heights today, each carried on a tide of rising interest rates. The deutschemark again bore the brunt of the pressure and the Bundesbank responded in force. Sterling cleared several new hurdles and none proved a significant barrier to its progress. The ERI closed at a record 77.8.

The pound closed at 2.4072 on Friday in New York, where the dollar was generally firmer following large increments to the monetary aggregates and a concomitant mark-up in deposit rates. This morning the dollar continued to harden but sterling began to recover lost ground, opening at 2.4083 and quickly scaling 2.41. A wave of broad-based buying around mid-morning gave further impetus and the pound passed 2.4150 before mid-day. Once US markets reopened, sterling met strong demand, although this seemed to come largely from London and other European centres. Certainly the flow of funds was out of Europe and there was a marked absence of commercial sellers, even when sterling crossed a number of potentially difficult psychological barriers. A further surge late in the day took the pound to close at 2.4245 - itself a 5½-year high - but later business was traded up to 2.4345. Euro-dollars failed to hold their opening gains and closed around ¾ better bid. Sterling deposits were extremely tight in the short end and this made for gains of around ¼ from three months onwards. Forward margins thus widened, the three-months' to 2¾ p.a. discount, and the covered differential rose to 3/16% in London's favour.

Sterling gained 1¼ in each of Paris (10.40¼) and Frankfurt (4.51) but only ¼ in Zurich (4.01¼). Against the mark this was a new four-year high and against the French franc a 5½-year high. In Italy (2132¼) sterling closed at a record level. The dollar set new six-month highs in these centres closing at 1.8598 in Germany (after 1.8617), 1.6563 in Switzerland (after 1.6612) and 4.2897 in France (after 4.2932). On Friday, the Federal Reserve sold \$86mn. for marks and \$10mn. for French francs. Today the Bundesbank sold \$211mn. on their own account and \$10mn. for the Federal Reserve, who themselves continued to buy the deutschemark in New York. EMS narrowed to 3¼ between the French franc and lira (879.35). The French bought \$35mn.-worth of marks as that currency slipped to 2¼ below the franc in the band. The Danes, too, bought \$12mn. and the Irish sold \$3mn. The yen, however, was serenely steady, closing at 208.20 in Tokyo and 208.48 in London.

Having fallen to \$655 in New York on Friday, gold recovered to fix at \$664.20 this morning. This afternoon, Americans sold the metal again and, having fixed at \$657, it traded down to \$651 by the close.

Operations:	Market	+	\$19mn.
	Ireland	+	24
	Zambia	-	5
	Sundries	+	3
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		+	\$41mn.
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	Overnight	+	\$13mn.
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