

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 21st October 1980

Professional profit-taking punctured the pound's bubble this afternoon but not before another wave of broad-based buying had driven both sterling and the dollar to new recent highs. The ERI closed at 78.3 after a record 78.4 at mid-day.

Sterling closed at 2.4315 in New York yesterday after business up to 2.4345. This morning the pound opened at 2.4315 and the early exchanges were remarkably quiet. Sterling dipped to 2.4295 then firmed gently in the face of a declining dollar. In mid-morning, however, general demand for pounds and dollars erupted again and sterling rose to 2.4402 before profit-taking restored calm. Another similar wave of buying early this afternoon carried the pound to 2.4515, its highest level for over seven years. At this point, the larger professionals began squaring positions in size and both sterling and the dollar went into orderly retreat, the pound falling to 2.4385 shortly before closing at 2.4400. Euro-dollars were  $\frac{1}{8}\%$  or more easier and with sterling deposits still very firm, forward margins widened, the three-months' to  $2\frac{1}{8}\%$  p.a. discount. The covered differential rose to  $\frac{1}{8}\%$  in London's favour.

Sterling passed several fresh milestones on the Continent. Against the deutschemark it gained a net  $\frac{1}{8}\%$  to 4.54 $\frac{1}{2}$  after a four-year high of 4.58 $\frac{1}{2}$ . Against the Swiss franc it set a three-year high of 4.06 $\frac{1}{2}$  before closing a net  $\frac{1}{8}\%$  better at 4.04 $\frac{1}{2}$ . In Paris the pound found its highest level for nearly six years (10.55) before closing at 10.48 $\frac{1}{2}$  for a net gain of  $\frac{1}{8}\%$ . Against the guilder a level of 4.96 $\frac{1}{2}$  was the best for 4 $\frac{1}{2}$  years and in Italy a new all-time high (2163) was established. The dollar finished at 1.8616 in Frankfurt (after 1.8706) and 1.6545 in Zurich (after 1.6625). EMS widened to 3 13/16% between the French franc (4.2960) and lira (883.20). The French bought marks worth \$19mn. and the Germans sold \$65mn. for American account. Yesterday, the Fed sold \$190mn. for marks and \$30mn. for French francs. The yen closed at 208.25 in Tokyo and 208 in London.

Gold was weak in face of the dollar's strength. Fixings were \$652.75 and \$652.50.

Operations:	Market	+	\$42mn.
	Interest	+	9
	IDA	+	9
	Ghana	-	8
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		+	\$52mn.
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