

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 22nd October 1980

Continued profit-taking, combined now with fears of a reduction in MLR, tended to depress sterling today, although fresh demand was seen from time to time at the cheaper levels. The dollar was generally stronger and, as a result, sterling's ERT closed unchanged at 78.3, after 78.4 at midday.

The pound traded up to 2.4445 in New York yesterday before closing at 2.4390. This morning it opened at 2.4425 and met early professional selling in size from London and the Continent. In part this was a continuation of yesterday's profit-taking, in part it reflected renewed strength in the dollar and in part, too, it resulted from press speculation on a cut in MLR. Sterling fell to 2.4330 but this level encouraged renewed demand and the pound ran back up to 2.4429 by mid-morning. This level proved too ambitious, however, and the rate had dropped back to 2.4375 by early afternoon. Early New Yorkers sold the pound down to 2.4305 again but this once more encouraged buyers and sterling recovered to close at 2.4357. With Euro-dollars around $\frac{1}{8}$ % better bid, forward margins narrowed, the three-months' rate at 2 $\frac{1}{2}$ % p.a. discount. Sterling's intrinsic premium fell to $\frac{1}{8}$ %.

The pound was little changed in Paris (10.48 $\frac{1}{2}$), scored a modest gain in Frankfurt (4.54 $\frac{1}{2}$) and put on $\frac{1}{8}$ % in Switzerland (4.05 $\frac{1}{2}$). The dollar improved in all these centres to 4.3050, 1.8675 and 1.6657 respectively. The Federal Reserve sold \$20mn. for marks yesterday. Today the Bundesbank sold \$10mn. for American account. EMS was 3 11/16% spread between the French franc and lira (884.50). The yen closed at 208.35 in Tokyo but weakened to 209.40 in London.

Gold rallied in New York yesterday and traded steadily through today. Fixings were \$659.50 and \$660.

Operations:	Market	-	\$10mn.
	Ghana	-	5
	Sundries	+	1
		-	<u>\$14mn.</u>

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