

THE DEPUTY GOVERNOR

Monday, 27th October 1980
FOREIGN EXCHANGE AND GOLD MARKETS

The dollar scored a sharp improvement again today in the wake of unexpected increases in Friday's monetary aggregates and a subsequent significant hardening in Euro-dollar rates. Sterling was sold in concert with other currencies but, as often, it proved reluctant to keep pace with the general trend and thus gained further ground on the Continent. The ERI closed unchanged at 78.9 after matching the previous high 79.3 this morning.

Having fallen precipitately after hours on Friday, the pound eventually closed at 2.4440 in New York. This morning, with the dollar considerably firmer, sterling opened at 2.4497 and initially traded better along with the dollar, as professional demand from Paris drove the rate to 2.4565. Dealers in London, however, were sellers and the pound soon reverted to opening levels, drifting further to around 2.4450 by mid-day. This afternoon saw considerable selling pressure at times from London and New York and the pound retreated to 2.4380, at which level it eventually closed. Euro-dollars were up to $\frac{3}{8}\%$ better bid. Forward margins narrowed, the three-months' to 2% p.a. discount and a covered differential of 3/16% emerged against London.

The pound gained $\frac{1}{8}\%$ in Germany (4.58), $\frac{1}{4}\%$ in France (10.55 $\frac{1}{2}$) and $\frac{1}{8}\%$ in Switzerland (4.13 $\frac{3}{4}$). At its best this morning, sterling equalled or surpassed yesterday's recent highs in Zurich (4.13 $\frac{3}{4}$), Paris (10.62 $\frac{1}{2}$), Milan (2183), Amsterdam (4.99 $\frac{1}{2}$) and Frankfurt (4.61 $\frac{1}{2}$). The dollar closed around its best levels for six months against the Swiss franc (1.6955), deutschemark (1.8788) and French franc (4.3282). The mark, which improved to 0.90 $\frac{1}{2}$ against the Swiss franc, was aided by further official support. On Friday, the Federal Reserve sold \$10mn. (spot) and \$15mn. (forward) for marks. Today the Bundesbank sold \$80mn. for American account and \$45mn. for themselves. EMS narrowed to 3 $\frac{1}{2}\%$ between the French franc and lira (889.55) but the mark and French franc remained the full 2 $\frac{1}{2}\%$ apart for much of the day. The French bought marks worth \$72mn. and the Germans sold French francs equivalent to \$35mn. The yen eased to 214.20 at the close in Tokyo but reacted to 213.35 in London.

Gold opened uncertainly after selling in the Far East but continued to recover in European markets. Fixings were \$633.50 and \$637.25.

Operations:	Market	+ \$4mn.
	Bangladesh	- 21
		- \$17mn.

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