

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 6th November 1980

A largely uneventful day saw the pound and dollar remaining very firm. A very substantial upturn in Euro-dollar deposit rates (followed later by a 1% increase in some US prime rates) left longer sterling deposits cheaper than their dollar counterparts for the first time in a good while. As a result the pound lost a little ground to the dollar, although the ERI finished the day unchanged at 80.2, after a new record 80.4 at mid-day.

Having closed at 2.4455 in New York yesterday, the pound opened at 2.4492 this morning and, on meeting some early Swiss selling, retreated to New York closing levels, around which it traded quietly until late morning. A single commercial buying order in London then drove the rate up to 2.4507 and the pound hovered around 2.45 until after the MLR announcement. This afternoon the dollar began to edge higher under pressure from the Euro-dollar market, a movement which persisted despite the prompt appearance of the Federal Reserve to supply funds to the domestic market with money at 15½%. The impact on sterling seemed slightly greater than elsewhere and the pound regressed through the afternoon to 2.4397 before closing at 2.4426. Later, the increase in Prime Rate to 15½% by Chase Manhattan saw sterling back to 2.4375. Euro-dollars closed around ¼ better bid. Forward margins narrowed sharply, the three-months' to 1/16% p.a. discount and the adverse covered differential was increased to ¼%.

The pound finished a touch firmer in Paris (10.94½) and Frankfurt (4.75¼) and a shade easier in Zurich (4.26¼). This morning new recent high levels were recorded in Belgium (76.30), France (10.96½), Italy (2238), Holland (5.15), Germany (4.76), Sweden (10.54) and Denmark (14.63¼). The deutschemark eased to 1.9459 against the dollar. Yesterday the Federal Reserve sold \$40mn. for marks (of which \$20mn. forward) and the Bundesbank today sold \$40mn. for the Americans. The French franc (4.4807) and deutschemark closed fully distant with the franc at -70 on the index of divergence. The French took in deutschemarks worth \$306mn. while the Bundesbank sold \$147mn. of French francs. The Belgian franc (31.19), which closed all but 2¼% from the French franc, required \$64mn. (in French francs) of support from the Belgian National Bank. The Irish, too, sold \$12mn. but the Norwegians bought \$22mn. (forward). The lira (915.35) was 3¼% below the French franc. The yen closed at 211 in Tokyo and 211.87 in London.

Gold wilted as the soaring cost of carry squeezed out the weaker holders. Fixings were \$633.75 and \$632 but the closing level was \$626.

Operations:	Interest	+	\$9mn.
	Ghana	-	7
	Sundries	-	2
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