

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 10th November 1980

A further decline in Euro-dollar deposit rates sparked widespread profit-taking in dollars and pounds today. The dollar gave up around 2% on the Continent, while sterling was easier by 3% and more against the EMS currencies. The deutschemark was the main beneficiary. Sterling's ERI fell from 79.6 to 78.0.

The pound closed at 2.4225 on Friday in New York where the dollar weakened further following a decline in the monetary aggregates. This morning sterling opened at 2.4190 and met heavy selling from the outset from London and Continental European banks. Interest rate comparisons still underlay the movements but the immediate impetus came now from those with long sterling positions against the deutschemark. With the pound having clearly topped against the dollar and with the dollar apparently off its best against the mark, these operators rushed to take their profits. The decline was orderly but persistent and not until mid-afternoon was there any sense of panic. By then, Americans had returned to sell the dollar and this served only to redouble the pressure on the pound. Sterling fell to 2.3865 before recovering late in the day to close at 2.3935. The cost of three-months' cover closed unchanged at 9/16% p.a. With Euro-dollars 1/8% easier by the close, sterling's intrinsic discount fell to 1/16%.

The pound lost 2 1/8% in Zurich (4.11 1/2), 3% in Paris (10.56 1/2) and 3 1/8% in Frankfurt (4.56 1/2). The dollar fell in these centres to 1.7192, 4.4137 and 1.9085 respectively. On Friday the Federal Reserve sold \$20mn. forward for deutschemarks. Today the pressure on the EMS was eased, though the narrow band was fully extended at the close between the guilder (2.0687) and Belgian franc (30.76). The lira finished 3 1/8% below the florin after official Italian purchases of \$50mn. The Danes, too, bought \$16mn. The yen closed at 213.10 in Tokyo but strengthened in London to 211.57.

Gold remained very nervous. Bid up to \$609 in New York on Friday before closing there at \$603.50, the metal recovered again in the Far East and was fixed at \$617 this morning in London. After touching \$620, gold met selling pressure once US dealers returned and a long and difficult fixing set a level of \$612.50.

Operations:	Market	-	\$3mn.
	India	+	24
	Sundries	+	10
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		+	\$31mn.
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