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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 12th November 1980

The exchanges witnessed some wild and violent gyrations today as the dollar fluctuated in a relatively thin market on a variety of conflicting considerations. Sterling stayed mercifully free of all this and regained a little of its lost composure. The ERI rose from 77.5 to 77.9.

The pound opened slightly firmer this morning at 2.3977 but, after touching 2.3985, it went into decline as the dollar generally strengthened. Early Swiss professional selling, possibly, in part, on Middle East Account, was the only feature. Sterling fell in gradual and orderly fashion to 2.3853 before cheap buyers in London started a recovery. A very large buying order on Central Bank account fuelled the trend and the pound rose to 2.3950 before consolidating. The dollar's advance continued into the afternoon but, when New York re-opened interest rates began to top out and profits were taken in the dollar. Sterling was swept up to 2.3995 before closing at 2.3973. After the close the IMM dumped dollars in size on a thin market and sterling was quoted up to 2.4162. Forward margins narrowed, the three months to  $\frac{3}{8}$ % p.a. discount. Sterling's intrinsic premium was  $\frac{1}{8}$ %.

The pound regained  $\frac{1}{8}$ % in Switzerland (4.08 $\frac{1}{2}$ ),  $\frac{1}{2}$ % in Germany (4.53 $\frac{1}{2}$ ) and 1 $\frac{1}{8}$ % in France (10.51 $\frac{1}{2}$ ). The dollar strengthened variously in these centres to 1.7030 (after 1.7207), 1.8930 (after 1.9095) and 4.3875 (after 4.42). The weakness of the French franc was due to Central Bank demand for £100 mn. against that currency. After the close, despite the general weakening of the dollar, the franc eased further to 4.41. EMS was thus relaxed. The guilder (2.0530) took over pole position. The Belgian franc (30.38) was a little less than 2% adrift and the lira (897 $\frac{1}{2}$ ) was 3 $\frac{1}{2}$ % distant. The Bundesbank sold \$10 mn. for the Federal Reserve and the Irish spent \$15 mn. Elsewhere the Swedes lost \$44 mn. The yen eased to 212.45 in Tokyo and 212.25 in London.

Gold recovered to \$615 in New York yesterday and traded steadily around that level this morning, fixing at \$614.50. This afternoon, it edged firmer. Another tortuous fixing set a level of \$619.50 and, with reports of aircraft firing missiles over Kuwait, the closing price was \$623.

Operations:	Market	+ \$ 5 mn.
	Bangladesh	- 12
	BIS	- 7
	Sundries	- 2
		<u>          </u>
		- \$16 mn.
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*Jr* 12th November 1980  
J.G.H.