

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 17th November 1980

Friday's increase in the US discount rate revived a familiar pattern on the exchanges today, with the dollar sharply stronger and sterling reluctant to yield. Profits were taken in the dollar this afternoon but a round of Prime Rate increases to 16 $\frac{1}{8}$ % led by Chase Manhattan, gave fresh impetus to the dollar's advance. Sterling meanwhile finished at the day's best levels, following the latest substantial increase in the UK trade surplus. The ERI rose to 78.6.

The pound closed at 2.40 in New York on Friday. The impact of the increase in the discount rate was first felt in the Orient over the weekend and by London's dawn this morning, sterling had been cut back to 2.3817 by a vastly better dollar. Two-way jousting on the early exchanges saw the pound as low as 2.3805 but it eventually settled around 2.3850 and later, as profits were taken in the dollar, sterling advanced to 2.3930. Early Americans sold the dollar but the pound traded fairly steadily around 2.39, even when the Prime Rates began to be raised. The rate was 2.3927 at 3.30 p.m. The trade figures were very well received and the pound was marked up to close at 2.3955, although little business of substance took place. Eurodollars were  $\frac{1}{8}$ % -  $\frac{1}{4}$ % better bid by the end of the day. Sterling deposits, too, tended firmer. Forward margins reverted to a discount for the dollar for all periods out to a year. Sterling's three month premium was  $\frac{1}{8}$ % p.a. and the covered differential was  $\frac{1}{8}$ % against London.

The pound gained  $\frac{1}{8}$ % in Zurich (4.14 $\frac{1}{8}$ %),  $\frac{1}{8}$ % in Paris (10.70 $\frac{1}{8}$ %) and 1% in Frankfurt (4.62 $\frac{1}{8}$ %). The dollar put on around 1% in these centres to 1.7310, 4.4692 and 1.9289 respectively. On Friday the Federal Reserve sold \$66 mn. for deutschemark. The Bundesbank today sold \$207 mn., all but \$7 mn. of which was for American account. The guilder (2.0905) remained atop EMS, 3 $\frac{1}{8}$ % above the lira (914.95) and almost 2 $\frac{1}{8}$ % from the Belgian franc (31.01). The Belgians sold \$10 mn.-worth of guilders. The French, too, sold \$60 mn. and \$29 mn.-worth of marks. The yen remained very steady, closing at 213.60 in Tokyo and 213.12 in London.

Gold was sold in the Far East as the dollar strengthened and opened in London around \$610, fixing this morning at \$609.25. This afternoon a recovery, started in New York, was nipped in the bud by the Prime Rate increases. The fixing set a level of \$611.75 and the close was a touch firmer.

Operations: Market	+ \$ 3 mn.
India	+ 24
Iran	+ 15
Sundries	+ 2
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	+ \$44 mn.
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17 November 1980  
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