

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 20th November 1980

Sterling came back into good demand today as overseas buyers of gilt-edge sparked professional short-covering and stop-loss orders. The dollar, too, recovered ground on interest rate considerations, a movement which was reinforced by a forecast on the German outlook, which the market took in bearish vein. All this took sterling's ERI up from 77.6 to 78.1.

The pound closed at 2.3812 yesterday in New York, where the dollar was generally a little softer. This morning the dollar opened better and sterling began at 2.3763, falling to 2.3720 on the early exchanges in concert with an easing dollar. The German economic forecast, while bullish for the currency in the medium term, appeared to highlight its short-term vulnerability. The exchanges turned and the dollar and pound were bought. Several large professionals on the Continent were short of pounds and were progressively provoked into covering at a loss. Cheap commercial buyers, too, were seen and sterling climbed steadily to 2.3945 by late morning. The unchanged MLR ensured sterling's relative buoyancy for the afternoon, the main feature of which was persistent and sizeable borrowing of pounds by Americans over the weekend, indicating their interest in the new issue. Sterling traded around 2.3925 for much of the afternoon before dipping to close at 2.3885. Forward margins widened, the three-months' to $1\frac{1}{8}\%$ p.a. premium. The covered differential rose to $\frac{1}{4}\%$ in London's favour.

The pound regained $\frac{1}{8}\%$ in Zurich (4.11 $\frac{1}{2}\%$), $\frac{1}{8}\%$ in Paris (10.60 $\frac{1}{2}\%$) and 1% in Frankfurt (4.57 $\frac{1}{2}\%$). The dollar improved in these centres to 1.7232, 4.4392 and 1.9145 respectively. The Bundesbank sold \$30mn. for the Federal Reserve and swapped out \$789mn. to drain surplus liquidity temporarily. The Swiss swapped in \$585mn. to add liquidity to their market. The guilder (2.0750) topped EMS. The lira (910) was 3 $\frac{1}{2}\%$ adrift and the Belgian franc (30.78) all but 2 $\frac{1}{2}\%$ distant. The Irish sold \$6mn. The Swedes spent a further \$25mn. The yen closed at 212.85 in Tokyo and 212.42 in London.

Gold continued its technical recovery this morning and was fixed at \$634.50. This afternoon, however, it lost ground as the dollar strengthened and interest rates advanced. The later fixing was \$630.50.

Operations:	Market	+	\$5mn.
	Ghana	-	16
	Sundries	+	2
		-	\$9mn.

JGM
20th November 1980.

JGH