

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 21st November 1980

Interest rates continued to dominate the exchanges today. Divergent trends on US prime rates left the dollar uncertain. Sterling was heavily sold from London and New York on anticipation of an imminent reduction in Minimum Lending Rate. The ERI fell from 78.1 to 77.4.

The pound closed at 2.3827 in New York yesterday, opened two points cheaper this morning and, after touching 2.3835 on the early exchanges hovered nervously for a while. The Swiss were eager sellers, however, and the pound eventually dipped below 2.38 and began a gradual drift down in a quiet market. Standing around 2.3750 early this afternoon, sterling was suddenly attacked by the dawn raiders from New York. The movement continued once US markets were fully under way and the pound fell in a nervous market to 2.3572 before steadying around 2.36. Citibank's Prime Rate increase to $16\frac{1}{2}\%$ - $\frac{1}{2}\%$ less than several of its competitors - then weakened the dollar. This, together with the exhaustion of the new issue, bolstered sterling which traded quickly through to close at 2.3640. Later, however, London banks sold pounds into New York and the rate dropped again to 2.3580. Sterling's three-month forward premium widened to $1\frac{1}{2}\%$ p.a. as Euro-dollars put on $\frac{3}{8}\%$ and comparable sterling deposits lost $\frac{1}{8}\%$. The covered differential was $3/16\%$ in London's favour.

The pound lost $\frac{1}{4}\%$ in Paris (10.52 $\frac{1}{2}$) and $\frac{3}{8}\%$ in both Zurich (4.08 $\frac{1}{2}$) and Frankfurt (4.53 $\frac{3}{8}$). The dollar finished firmer in these centres at 4.4520, 1.7270 and 1.9182 respectively. These, however, were not far from the day's lowest levels. The Federal Reserve yesterday sold \$99mn. for marks and the Bundesbank today sold \$30mn. for American account, swapping out over \$1bn. to drain liquidity. EMS finished fully-stretched between the Dutch florin (2.0790) and Belgian franc (30.90). The Dutch bought \$3mn. of Belgian francs. The Irish sold \$14mn. The lira (913) was 4% distant from the guilder. The yen remained very steady, closing at 213.65 in Tokyo and 213.75 in London.

Gold touched \$640 in New York yesterday but failed to hold that level today in the face of rising US interest rates. Fixings were \$637.75 and \$634.75.

Operations:	Market	-	\$14mn.
	Sundries	+	8
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		-	\$6mn.
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