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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 1st December 1980

A rather erratic start to the month. With interest rates hardening over the weekend, the dollar opened strongly and continued to advance but received a setback when Fed Funds eased to below 18%. Sterling was reasonably well traded this morning but retreated later in quieter conditions. The ERI was unchanged at 77.5.

On Friday evening the pound closed in New York at 2.3567. It began this week at 2.3532 in London and on modest net demand was dealt in up to 2.36. By early afternoon it had subsided to 2.3425 as the dollar reached its day's peak, but rallied to close at 2.35. Three-months' Euro-dollars rose to 18 11/16% but closed 1/16% lower; sterling interbank advanced to 14 11/16% and the covered comparison closed at parity.

In Europe sterling was at its best in the early session, touching nearly 4.58 in Germany. Although closing there at 4.55½ it retained a net gain on pre-weekend levels; also in France (10.56%) and Switzerland (4.11%). The dollar closed near to opening levels, which were about ¾% up on the Friday closing rates. In Germany, having touched 1.9496, it ended the day at 1.9382 - the Bundesbank having sold \$110mn. for Fed account (the Fed sold \$16mn. late on Friday) and a mere \$4mn. for their own account. EMS widened to 2¼% and the Dutch bought Belgian francs worth \$5mn.: the franc was 31.16 and the florin 2.10. The Italians purchased another \$50mn., in spite of the lira's weakening to 920.45, and the Irish lost \$8mn. The Swiss franc closed at 1.7515. The yen was affected by the removal of exchange controls and eased to 217.80 in Tokyo; it experienced a quiet session in London to close just 10 sen lower.

Gold was actively bid for on the latest package of bull rumours: Syria/Jordan, Poland, oil price fears. But having established a higher plateau it traded steadily and fixed at \$635.50 and \$635.

Operations:	Market	+	\$4mn.
	India	+	24
	Interest	+	11
	Sundries	-	5
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		+	\$34mn.
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