

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 2nd December 1980

The dollar, after faltering at first, continued to strengthen in the belief - later substantiated by Chase's move to 18½% - that another round of prime rate increases was imminent. Sterling began in good heart and demand but later faded away. The ERI declined to 77.4.

A quiet evening in New York last night left the pound at 2.35. This morning it opened here at 2.3535 and traded up to 2.3588 on early buying orders, no doubt influenced by the weaker stance then being adopted by the dollar. It then settled down around the opening level before joining in the general retreat against the strengthening dollar, to close at 2.3463 (after 2.3458). Euro-dollars were steady after opening with an offered tendency; three-months closed at 18½%. Sterling interbank was unchanged and a covered differential of 1/16% p.a. re-emerged against London.

The pound rose to 4.56½ in Germany but was a little lower in Switzerland (4.11½) and France (10.55½). The deutschemark was particularly weak - losing ¼% today in dollar terms, on the closing level of 1.9458 - and actually edged out the Belgian franc from the bottom of EMS, 2½% below the florin (2.1051). In the dollar's early morning weakness, the Bundesbank sold \$50mn. for Fed account and \$17mn. for their own. With their franc then the weakest, the Belgians sold florins worth \$28mn. The Italians continued to scoop in dollars, buying today another \$60mn.; the lira closed at 920.25. The yen recovered yesterday's losses, finishing at 215.50 in Tokyo, 216.30 in London.

Gold was steady until after the second fixing, prices at the two sessions being \$629.25 and \$629. After the prime rate increase, however, it eased sharply to \$620.50 though recovering later to \$623.50.

Operations:	Market	+	\$1mn.
	Sundries	-	1

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