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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 3rd December 1980

Trading on the exchanges was relatively thin throughout the day. Nonetheless the dollar weakened this afternoon as Federal Funds eased in New York. Sterling felt modest demand from that centre and advanced to close at the day's best level. The ERI, however, fell to 77.3.

The dollar continued to strengthen in New York yesterday and sterling was hit harder than most, falling to 2.3307 before closing at 2.3347. This morning the pound opened at 2.3442 and drifted lower on the early exchanges - in concert with the dollar - touching 2.3390 before settling quietly a little over 2.34. This afternoon the dollar's decline gained pace and sterling was marked up to around 2.3450, closing at 2.3465. Sterling's three-month forward premium was 3½% p.a. and the intrinsic discount remained at 1/16%.

The pound was slightly softer in Paris (10.54½) and Zurich (4.10½) and ¼% easier in Frankfurt (4.54½). The dollar weakened in these centres to 4.4937, 1.7497 and 1.9375 respectively. Yesterday the Federal Reserve sold \$50mn. for marks. EMS was fully stretched at the close between the Dutch (2.1010) and Belgian (31.19) currencies. The Belgians sold \$22mn.-worth of guilders; the Dutch bought Belgian francs equivalent to \$23mn. The lira (920.45) closed 3¼% beneath the florin. The Italians garnered in a further \$47mn. The yen recovered smartly to 214.30 in Tokyo and closed in London at 214.60.

Having fallen to \$622 in New York overnight, gold recovered its losses in a short burst of activity this morning and held its ground thereafter. Fixings were \$627.50 and \$627.25.

Operations:	Kenya	+	\$12mn.
	Interest	+	5
	<i>Muni Vint</i> Maturities	-	5
	Sundries	+	3
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		+	\$15mn.
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*Jem* 3rd December 1980.

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