

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 9th December 1980

Dollar deposits and the dollar itself moved yet firmer today. The movement owed not so much to events in New York - although the Federal Reserve chose not to intervene in the domestic market yesterday - as to the growing feeling (which was reinforced by a leading market commentator) that US interest rates are not about to peak but have somewhat further to go. Sterling as often remained aloof from the happenings elsewhere and the money supply estimate merely reinforced the view that the currency will be protected for a while yet by relatively high interest rates. Sterling's ERI rose from 77.2 to 77.5.

The pound closed at 2.3447 in New York yesterday and opened this morning at 2.3431. Having touched 2.3440 on the early exchanges, sterling tended gradually easier over the morning in the face of a much firmer dollar. One or two sizeable sellers were seen on commercial and investment account. This afternoon the pace of the dollar's upward movement accelerated and the pound fell to 2.3330. However, following the Banking Statistics, dealers took the view that UK interest rates would remain relatively high for a little longer and sterling recovered to 2.3395 before closing at 2.3390. The INM were buyers of pounds at this stage but New York later sold the currency down to 2.3355 on commercial account. Three-month Euro-dollars were over $\frac{3}{4}$ % firmer at the close. Sterling's three-month forward premium rose to $5\frac{1}{2}$ % p.a. and the intrinsic discount was reduced to 1/16%.

The pound gained $\frac{1}{4}$ % in Germany (4.62 $\frac{1}{2}$) and $\frac{1}{4}$ % in both France (10.70 $\frac{1}{2}$) and Switzerland (4.18 $\frac{1}{2}$). The dollar closed in these countries at 1.9775 (after 1.9863), 4.5787 (after 4.58 $\frac{1}{2}$) and 1.7890 (after 1.7957) respectively. Yesterday the Federal Reserve sold \$59mn. for marks. Today the Bundesbank sold \$105mn. for American account and the Federal Reserve themselves had sold a further \$70mn. before European markets closed. In EMS the guilder (2.1450) finished $3\frac{1}{2}$ % above the lira (937) and 2% ahead of the Belgian franc (31.76). The Italians bought \$50mn., the Danes took in \$65mn. and \$10mn.-worth of marks and the French purchased marks worth \$91mn. Elsewhere the Swedes lost a further \$30mn. The yen eased to 209.30 in Tokyo and touched 210.25 in London before closing at 209.

Gold wilted further before the burgeoning dollar. Fixings were \$612.50 and \$604, but a late reaction bought a closing level of \$608.

Operations:	India	+	\$12mn.
	Interest	+	9
	Sundries	-	3
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		+	\$18mn.
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