

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 10th December 1980

Following an apparent tightening of the monetary screw by the Federal Reserve yesterday, the dollar gained over 1% on the Continent this morning, re-establishing levels last seen over two years ago. The trend was confirmed later today by Chase Manhattan's increase in Prime Rate to 20%. Sterling again traded comfortably, far removed from the heat of the battle, and the ERI advanced from 77.5 to 77.9.

The pound ran back up to 2.3385 in New York yesterday before closing there at 2.3345. The dollar, however, was considerably firmer against the European currencies following the Federal Open Market Desk's execution of reverse repurchase agreements (draining money) at 18 $\frac{1}{2}$ %. This morning, the dollar was bid yet higher as Euro-dollars began the day $\frac{1}{8}$ -1% firmer. Sterling, however, opened at 2.3360 and traded quietly and steadily through the morning in a narrow range, touching 2.3337 at worst. Modest two-way commercial business was noted. This afternoon Americans took profits in the dollar and sterling crested 2.34 again, touching 2.3415 before closing at 2.3407. The initial reaction to the Prime Rate increase was perverse. Mindful of the Spring peak in Prime Rates at 20%, operators sold the dollar in anticipation of lower interest rates. This mood did not prevail for long, however, and after the close the dollar rebounded to new high levels against the Continentals. Three-month Euro-dollars finished a net 9/16% higher. Sterling's three-month forward premium, however, widened by $\frac{1}{8}$ % to 6 $\frac{1}{8}$ % p.a. and the covered differential moved to $\frac{1}{8}$ % in London's favour.

The pound gained around 1% against each of the Swiss franc (4.22 $\frac{1}{2}$), French franc (10.80%) and deutschemark (4.67 $\frac{1}{2}$). Respective closing levels for the dollar were 1.8055 (later 1.8220), 4.6175 (later 4.6375) and 1.9965 (later 2.0090). Yesterday the Federal Reserve sold \$10mn. for marks and the Bundesbank today sold \$40mn. for American account. The French franc edged out the guilder (2.1675) at the head of EMS, 2 $\frac{1}{2}$ % above the Belgian franc (32.10) and 3 $\frac{1}{2}$ % distant from the lira (946). The Italians took in \$25mn. The Swedes shelled out a further \$40mn. The yen strengthened yesterday in New York where the Japanese bought \$11mn. This morning it eased to 209.25 in Tokyo before reacting to 208.70 in London.

Gold gave up \$15 in New York yesterday as the dollar firmed. This morning in an active market it traded steadily if nervously around the lower levels fixing at 594.50. Some strong though far from invincible investor support was seen at this level. This afternoon, however, after another nervous start, the price fell heavily in the fixing itself, which set a level of \$579. Later still the metal was sold down to \$575.

Operations:	Marked	+	\$13mn.
	British Airways	+	25
	(PSB 3'teed)		
	India	+	12
	EEC	-	7
	Sundries	+	2
		+	\$45mn.
	Overnight	+	\$7mn.

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