

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 11th December 1980

On a day which saw the dollar add substantially to yesterday's considerable gains, the main feature was some panic offering of sterling which brought a 1% fall against the dollar. The move was caused by a rumour - almost certainly untrue - of substantial OPEC selling of pounds, but it nonetheless uncovered an underlying vulnerability which had hitherto been unnoticed. Sterling's ERI fell from 77.9 to 77.6.

The pound closed at 2.3395 in New York yesterday and opened at 2.3385 this morning, touching 2.34 in the initial sparring. Once this was over, however, the dollar, which had opened firmer, began to gain ground and sterling, which had previously resisted any such movement, turned down with the Continental currencies against the dollar. Volume was light but by late morning the pound had retreated to 2.32. Suddenly a rumour swept the market that a major oil producer was dumping pounds. They were subsequently thought to have sold no more than a few million but the knowledge of their presence sufficed to create a panic. Most operators were probably modestly long of pounds and few were prepared to take substantial positions before the New Year. The rate fell very quickly to 2.3040 before profit-taking brought a turn. Early Americans then bought the dollar aggressively and sterling retreated again, this time to 2.3015, before positions in the dollar were squared and the pound recovered to close at 2.3170. Three-month Euro-dollars closed $\frac{1}{8}$ % firmer at a record 21 $\frac{1}{8}$ %. Sterling's three-month forward premium widened to 7 1/16% p.a. and the covered differential moved to $\frac{1}{8}$ % against London.

The pound was unchanged in Paris (10.80 $\frac{1}{4}$), a touch better in Frankfurt (4.67 $\frac{1}{2}$) and $\frac{1}{8}$ % firmer in Zurich (4.24 $\frac{1}{4}$). The dollar gained a further 1% or more in each of these centres, closing respectively at 4.6650 (after 4.6950), 2.0185 (after 2.0307) and 1.8315 (after 1.84). The Federal Reserve sold \$56mn. for deutschemarks yesterday and the Bundesbank sold \$97mn. today (of which \$80mn. for the Americans). In EMS the Belgian franc (32.47) closed 2 3/16% adrift of the French franc, but only after the Belgians had sold \$9mn.-worth of guilders. The lira (958.75) was 3 $\frac{1}{8}$ % distant. The Irish sold \$7mn. The yen closed weaker in Tokyo at 211 but rebounded in London to 210.40.

After a relatively steady if uncertain morning, in which the price was fixed at \$573.50, gold again met substantial selling pressure this afternoon. The later fixing set a level of \$558. Cheap buyers then started a recovery but this was aborted and business took place down to \$555 before the close.

Operations:	Market	-	\$8mn.
	India	+	12
	Interest	+	6
	Mauritius	-	5
	Sundries	+	5
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		+	\$10mn.
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