

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 12th December 1980

Yesterday's sharp fall in commodity prices, and rumours of ensuing financial difficulties for some of the firms involved, encouraged the belief that US interest rates were high enough for the moment. Euro-dollars eventually gave up all and more of their opening gains and, in a very thin exchange market, the dollar was sold down by some 1½%. Sterling was a dull market and failed to keep pace with the Continental currencies. The ERI fell to 77.5.

The pound closed at 1.3182 in New York yesterday. This morning with Euro-dollars ½% better bid, the dollar began ½% firmer. Sterling opened at 2.3092 and touched 2.3080 on the early exchanges as the dollar initially tended even firmer. Soon enough, however, the deposit rates were cut back and the dollar marked down; the pound established a trading range around 2.3150. Although Europeans squared their books for lunch - sterling declining to 2.3095 as the dollar improved - Americans this afternoon offered a rather more dramatic version of this morning's drama. The market, however, remained very thin and the dollar dropped to close barely above the day's low levels. Sterling touched 2.3270 before closing at 2.3240. Having opened ½% firmer at a new record 22 5/16%, three-month Euro-dollars declined by 1%. Sterling's three-month forward premium fell by only ½% to 6 15/16% p.a. and the covered differential moved back to ½% in London's favour.

The pound lost ½% in Zurich (4.21) and ½% in each of Paris (10.74½) and Frankfurt (4.65½). The dollar closed in these centres at 1.8115, 4.6250 and 2.0030 respectively. Yesterday the Federal Reserve sold \$44mn. for deutschemarks. The Bundesbank sold \$80mn. early this morning on American account and went on to swap in \$1,485mn. to provide liquidity for two weeks. In EMS the Belgian franc (32.20) closed slightly less than the full 2½% distant from the French franc. The French bought \$37mn. and \$12mn.-worth of Belgian francs, the Belgians sold \$2mn.-worth of guilders and \$19mn.-worth of French francs and the Dutch bought Belgian francs equivalent to \$7mn. The lira (948) improved to within 3¼% distance from the leader and the Italians took in \$80mn. The Danes bought \$15mn. and a few deutschemark. The yen closed at 210.40 in Tokyo and 210.10 in London.

Gold had another nervous and uncertain day. After touching \$541 in Hong Kong this morning, it recovered to fix at \$553.50 in London. Then, after a further decline, a more dramatic recovery took place in the later fixing, which set a level of \$562.75.

Operations:	Market	+	\$1mn.
	India	+	12
	Bangladesh	-	9
	Sundries	-	1
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		+	\$3mn.
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