

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 19th December 1980

Dealers' interest in participating on the exchanges was reduced even further today. Spreads widened and conditions were not conducive to any serious activity. As a result, although Euro-dollar deposits shed over 1% in the course of the day, it was only later this afternoon, with the return of the United States, that the dollar reacted by turning easier. Sterling looked vulnerable at one stage of the afternoon but recovered, once the dollar declined, to finish very firm. The ERI rose from 77.4 to 77.6.

The pound closed at 2.3255 in New York yesterday and opened at 2.3275 this morning, trading quickly up to establish a range around 2.33. Later this morning one or two commercial sales were placed on a thin and unwilling market and sterling drifted back by half a cent. Early this afternoon the backwash of these orders drove the pound down to 2.3207 but returning Americans sold the dollar and sterling recovered strongly to close at 2.3370. Three-month Euro-dollars closed around 1 $\frac{3}{4}$ % cheaper than yesterday at 20 1/16%. This owed much to the continuing optimism in US domestic markets and Citibank's $\frac{1}{2}$ % increase in Prime Rate to 21 $\frac{1}{2}$ % did little to change the mood. Sterling's three-month forward premium narrowed by almost 1% to 5 $\frac{1}{2}$ % p.a., leaving a covered differential of $\frac{1}{4}$ % in London's favour.

The pound was barely changed in Paris (10.72 $\frac{1}{2}$) and Frankfurt (4.63 $\frac{3}{4}$) but $\frac{3}{4}$ % better in Zurich (4.22 $\frac{3}{4}$). The dollar weakened in these centres to 4.5875, 1.9825 and 1.8075 respectively. The Swiss swapped in \$120mn. to provide a modest amount of end-year liquidity. The Bundesbank swapped in \$1,525mn. for a week, thus withdrawing the liquidity, as with their last such exercise, ahead of the end-year. In EMS the Belgian franc (31.97) was the full distance from the French franc, while the lira (946) fell to over 4% from the top of the band. The Belgians sold French francs worth \$15mn. and the French bought \$5mn. of Belgian francs and \$10mn. of deutschemark, while swapping out \$50mn. The yen closed at 209.30 in Tokyo but strengthened to 208 in London.

Gold was a dull market. Fixings were \$573.50 and \$575 but later the price was marked up to \$583 as the dollar declined.

Operations:	Market	+	\$3mn.
	IDA	+	12
	Sundries	-	8
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		+	\$7mn.
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