

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 18th March 1980

Renewed strength in the dollar this morning was sapped later in the day by a softer tendency in dollar deposits. Sterling was propped throughout the day by a very large buying order on oil company account and, with the backwash of this order still rippling through the market this afternoon, the pound closed on a very firm note. The ERI rose to 72.4.

The pound closed at 2.1920 in New York yesterday and opened this morning at 2.1868. Despite a marked easing in eurodollar deposits from the outset, the dollar was not unduly troubled and soon began another upward surge which culminated in new recent highs in many Continental centres early this afternoon. Sterling was again relatively unscathed, although it did decline to 2.1807 in mid-morning. However, once the impact of the commercial demand for pounds began to show, sterling held up. This afternoon, the dollar again topped out when eurodollars, which had meanwhile regained some ground, once more turned easier, and, with London banks now eager takers of pounds in the wake of the earlier order, sterling advanced rapidly to touch 2.2020. The dollar had the final word, however, and a late rally, following Prime Rate increases to 19%, clipped sterling to 2.1950 by the close. Sterling's forward premium narrowed to 1 5/16% p.a. which eliminated the adverse covered differential.

The pound gained a further 1/8% in Germany (4.11%) and 1/8% in France (9.60%) but lost 1/8% in Switzerland (3.89%). Yesterday, the Federal Reserve sold \$15 mn. for deutschemarks and the Bundesbank today spent \$118 mn. The mark closed little changed at 1.8743 (after 1.8835). The Swiss franc closed firmer on balance at 1.7720 (after 1.79) and the Swiss did no more than swap in \$20 mn. The Belgians, again under pressure in the EMS, threw everything in to the fray shelling out \$12 mn., \$21 mn. of lire, \$23 mn. of Swiss francs, \$24 mn. of guilders and \$42 mn. of French francs. This evidently had some effect since the Belgian franc (30.39) finished much improved at 65 on the index of divergence and the band itself narrowed to under 2% in width, the French franc (4.3765) still at the head. The Japanese sold \$17 mn. in New York yesterday but were idle in Tokyo this morning. Discount Rate was duly raised by 1/8% to 9% and this, together with an increase in reserve requirements, brought a modest appreciation in the yen to 248.80. In London it closed at 248.50 (after 249.25).

Gold again followed the dollar. After a low point of \$460 in Hong Kong this morning, it recovered to a fixing level of \$474, still \$10 lower than yesterday afternoon. The later session saw a further recovery and the metal was fixed at \$481.50.

Operations:	Market	+ \$25 mn.
	Iran	+ 20
	India	+ 11
	Sundries	+ 2
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		+ \$58 mn.

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