

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 19th March 1980

No firm trend emerged on the exchanges today and the dollar again fluctuated in line with the moment's trend in deposits, which were generally easier. Sterling's fortunes were similar: at times very firm, at others somewhat suspect. The ERI fell to 72.2.

The pound was rather soft in New York yesterday and closed there at 2.1857 after business down to 2.1820. This morning, however, it opened at 2.1930 and, with the dollar easing initially in response to lower deposit rates, advanced to 2.2012. At these levels Middle Eastern sellers appeared in size and sterling subsided, touching 2.1905 eventually before establishing a level around 2.1925. The dollar meanwhile was staging a broad recovery. This afternoon the action was played out again, though volume in sterling, at least, was insignificant. Deposits eased, the dollar weakened and sterling rose to 2.1980 before a late reaction - occasioned perhaps by an increase in Citibank's Prime Rate to 19% - took the pound down to 2.1888 and a closing level of 2.1910. With eurodollars softer, sterling's three month forward premium narrowed to 1 1/16%. Interest parity again prevailed.

The pound lost  $\frac{3}{8}$ % in Switzerland (3.87%) and France (9.57%) and  $\frac{1}{8}$ % in Germany (4.10%). The European currencies all closed a touch firmer against the dollar, with the deutschemark at 1.8724 and the Swiss franc at 1.7707. The Bundesbank sold \$7 mn. and the Swiss swapped in \$350 mn. for a month. Yesterday the Federal Reserve sold \$30 mn. for Deutschemarks. The EMS contracted to 1 13/16% in width between the French franc (4.3692) and Belgian franc (30.29). The Belgians raised Bank Rate by 2% to 14% and did not have to intervene. Their Agency finished at 64 on the index of divergence. In Scandinavia, the Danes took in \$19 mn. and the Norwegians \$46 mn., but the Swedes spent \$52 mn. The yen closed at 249.10 in Tokyo and 248.45 in London.

Gold was bid up this morning following short-covering in Hong Kong. The price was fixed at \$514. The trend continued this afternoon and the fixing set a level of \$527. Later, however, profits were taken in New York and the close was around \$515.

Operations:	Market	+ \$13 mn.
	PSB:	
	British Rail	+ 46
	National Water Council	+ 35
	Iran	+ 81
	Interest	+ 20
	Bangladesh	+ 8
	Sundries	- 11
		- 2
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		+ \$109 mn.

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