

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 31st March 1980

The dollar forged further ahead today to levels not seen since before the crisis of autumn 1978. Eurodollars were up to $\frac{1}{2}\%$ better bid and the latest modest decline in the U.S. leading indicators gave dealers further food for thought. The major Central Banks gave heavy support to their currencies. Sterling, as usual, declined reluctantly and the ERI closed unchanged at 72.6.

The pound closed at 2.1775 in New York on Friday and opened ten points cheaper this morning. The dollar eased slightly on the early exchanges but sterling traded no higher than 2.1770. Once the dollar began to advance, sterling retreated and met selling on commercial, investment and oil account. This was well absorbed, however, by Swiss professional buying and other small commercial demand. By early afternoon, the pound had recovered from 2.1660 to 2.1723. Late this afternoon, the dollar pushed further ahead and sterling sold off to 2.1615 before closing at 2.1640. Sterling's three-month premium widened to 1 7/16% p.a. and, with inter-bank sterling deposits also rising substantially, the covered differential finished at $\frac{1}{2}\%$ in London's favour.

The pound gained $\frac{3}{8}\%$ in Paris (9.71 $\frac{1}{2}$) and Frankfurt (4.21 $\frac{1}{2}$) and all of 1% in Zurich (4.00 $\frac{1}{2}$). Official denial of the story that the Swiss and Germans were conspiring together to hold their cross-rate provided scope for the Swiss franc to ease again to 0.94 $\frac{1}{2}$. Against the dollar, it traded down to 1.8517 before closing at 1.8487. The National Bank sold \$55 mn. and \$200 mn. outright forward. The deutschemark meanwhile touched 1.95 before finishing at 1.9485. The Bundesbank sold \$317 mn. (On Friday, the Federal Reserve had sold \$36 mn. for marks.) The EMS was well-stretched for much of the day between the French franc (4.4895) and Belgian franc (31.22) or deutschemark. The Belgians sold \$36 mn. of French francs and by the close the deutschemark had resumed the last place in the band. With all but the punt at least 1% adrift of the leader, the French franc finished at -70 on the index of divergence. The Bank of France took in \$13 mn. of deutschemarks. In Tokyo, the Japanese spent \$113 mn. to bring a close for the yen of 249.70. In London, it fell past 250 before ending the day at 249.97.

Gold eased as the dollar strengthened but apparently without any undue downward pressure. Fixing levels were \$503.25 and \$494.50 but by the close the metal had recovered to \$510. Silver remained remarkably steady.

Operations:	Market	- \$12 mn.
	Bangladesh	- 22
	Mauritius	- 5
	IDA	+ 5
	Sundries	+ 6
		<u>- \$28 mn.</u>

The result for March, on the old (March 1979) valuation, is a reserve increase of \$204 mn. to a level of \$24,139 mn., after net public sector debt repayments of \$45 mn. The overbought forward position rose by \$95 mn. to \$1,332 mn.

Jim
31st March 1980
JCH