

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 9th April 1980

Continuing yesterday's trend, European markets savaged the dollar this morning, leaving it over 4% cheaper for the last two days trading. No new reasons were cited: developments in Iran and the course of US interest rates are still the major worries. The movement seems to have started in Paris where heavy Middle Eastern demand for the French franc was seen. This brought problems in the EMS and prevented the Bundesbank from giving more than modest support to the dollar. Sterling followed the field but, as usual, at a distance and thus lost very substantial ground to the European currencies. The ERI fell from 72.8 to 72.1.

The pound traded up to 2.1830 in New York yesterday before closing there around two cents firmer at 2.1770. This morning the Far East was quiet, the Federal Reserve apparently having posted a support price for the dollar. Sterling opened in London at 2.1802, but in a short while markets were in turmoil as the dollar was marked down very rapidly across the board. The pound was not heavily traded but quickly topped 2.19 and went on to touch 2.2022 before profits were taken. Thereafter, while the dollar continued to weaken in Europe, sterling was sold and fell sharply to 2.17 by late morning. This afternoon was better balanced on the Continent as official support for the dollar was felt. Sterling, however, recovered to 2.1917 before selling off again in the late afternoon to close at 2.1760. The three months' forward premium was 1 1/16% p.a. and the covered differential was 3/8% against London.

The pound lost 2 1/8% in Frankfurt (4.12) and Paris (9.50%) and 2 3/8% in Zurich (3.88%). The Swiss franc and deutschemark each gained over 4% on the dollar to 1.7860 and 1.8937 respectively. The Swiss sold \$95 mn., despite the dollar's weakening, and their DM cross-rate improved substantially to 0.94 5/16. Yesterday, the Federal Reserve sold deutschemarks worth \$78 mn. Today the Bundesbank, constrained by their position in the EMS, could buy no more than \$60 mn. They did, however, swap in \$560 mn. and sold \$194 mn.-worth of French francs. The Belgians, too, sold \$42 mn. of French francs and their franc (30.38) closed at the bottom of the band, a little below the mark and just over 2% distant from the French franc (4.37). The French took in \$90 mn., \$45 mn. of marks and a few Belgian francs. The Danes sold \$15 mn. and \$6 mn. of French francs. The Irish sold \$9 mn. The yen closed at 257.60 in Tokyo and 252.60 in London.

Gold opened very firm but made little headway over the day. Fixings were \$547 and \$554.

Operations: Market	+ \$27 mn.
India	+ 22
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	+ \$49 mn.

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