

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 16th April 1980

After a quiet morning, the dollar was heavily sold this afternoon from New York, following a reduction in Prime Rate by Chase Manhattan and a press report of a planned ultimatum to Iran by President Carter. Sterling was well bid, but lost ground, as usual, to the European currencies. The ERI rose to 72.8.

The dollar weakened generally in New York yesterday and sterling closed there at 2.1992. This morning the pound began at that same level and tended slightly easier through the morning as the dollar firmed. 2.1950 was the cheapest price. The reversal of fortune began as New York returned. US domestic markets again opened very firm and erupted when Chase reduced the prime (by $\frac{1}{8}\%$ to $19\frac{3}{8}\%$). Conversely, the dollar was sold. Sterling was bid up to close at 2.2150, the day's high. Later trading took place up to 2.2260. The three month forward premium narrowed to $\frac{1}{4}\%$ p.a. as eurodollar deposits eased and this gave sterling an intrinsic premium of $\frac{3}{8}\%$.

The pound lost $\frac{1}{8}\%$ in Paris (9.58 $\frac{1}{2}$), $\frac{1}{8}\%$ in Frankfurt (4.13 $\frac{1}{2}$) and $1\frac{1}{8}\%$ in Zurich (3.83 $\frac{1}{2}$). The Federal Reserve bought marks worth \$24 mn. yesterday but the major Central Banks did not support the dollar today. The Swiss franc firmed to 1.7310 (later 1.7250) and the deutschemark to 1.8660 (later 1.8570). On the cross, the franc hardened to 0.92 $\frac{1}{4}$. The EMS was spread a comfortable 2% between the French franc (4.3275) and Belgian franc (30.07). In Scandinavia, the Norwegians bought \$55 mn. outright forward but the Swedes sold \$39 mn. The yen closed at 252.35 in Tokyo and 248.60 in London.

Gold improved throughout the day. The fixings set levels of \$513.50 and \$520 but the metal was later well wanted following the story of President Carter's planned ultimatum. The price touched \$535 before closing at \$528.

Operations:	Market	+ \$24 mn.
	Iran	+ 15
	India	+ 11
	Swaziland	+ 5
	Government	- 11
	Sundries	+ 4
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		+ \$48 mn.
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