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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 9th May 1980

Another relatively inactive day for the most part. The dollar firmed, both in response to a further hardening in eurodollar rates, and in anticipation of an encouraging Producer Price Index. The latter event brought a reaction - since the number was well discounted - but Volcker's cautionary words brought the dollar to a strong close. Sterling attracted little interest and was marked down this afternoon as the dollar advanced. The ERI fell to 73.0. Libyan threats had no impact.

The pound closed quietly at 2.2800 in New York yesterday and began today at 2.2770. Sterling touched 2.28 on the early exchanges then drifted back to trade quietly through the morning around the opening level, largely unaffected by the dollar's strength. Later this afternoon, however, the Chicago IMM were small sellers of pounds and sterling continued to drift down thereafter to 2.2685 before closing at 2.27. Despite the upturn in eurodollar rates, forward margins widened and three months' cover cost 5½% p.a. at the finish. The covered differential was ½% against London.

Sterling gained ¼% in Zurich (3.80¼) and ¼% in Frankfurt (4.10¼) but was a touch cheaper in Paris (9.58¼). The dollar improved significantly, especially following Volcker's warning that the decline in interest rates may not continue unless inflation is properly checked. The Swiss franc eased to 1.6780 and the deutschemark to 1.81. There was no intervention of substance on the Continent. The French franc (4.2235) continued to lead the EMS, a little over 1½% apart from the Danish krone (5.6662) which replaced the lira at the foot of the band. The yen closed at 231.80 in Tokyo and 232.20 in London.

Reflecting the dollar's strength, gold tended a little easier. Fixings were \$510.50 and \$508.25; the metal recovered a little towards the close.

Operations:	Market	+ \$20 mn.
	Interest	+ 5
	Ghana	- 6
	Sundries	- 2
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		+ \$17 mn.
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