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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 22nd May 1980

Aggressive buyers of sterling came in early today. The ERI opened 0.2 higher at 74.3, a fresh record for the current index. Profit-taking brought a retreat to 73.9 at noon, but the index closed at 74.0. The dollar received further official support, especially in Japan, without being visibly weak in most centres; US interest rates fell again.

The demand for sterling petered out in New York, where the pound closed at 2.3305, but erupted again this morning. 2.3257 was the first rate, but a large Swiss bank soon entered and pushed the rate to 2.3387 in short order, the highest for five years. At this level profits were taken, and sterling fell back to 2.3170 in the late morning before recovering to 2.3220 at noon. Continental banks still seemed prepared to take profits, but some Middle Eastern interest and buying in New York and Chicago as the afternoon wore on kept the rate above 2.32 for the most part. The close was taken at 2.3267 (after 2.3275), and sterling rallied again in late trading to 2.3310. Oil (with Nigeria raising their price by \$2) and interest rates were again dominant. A couple of large American banks reduced prime rate to 15½%. 3-months' euro-dollars fell another ½% to 10%; the cost of cover widened to 6½% in sympathy; the covered differential in London's favour doubled to ½%.

Sterling was very strong on the Continent this morning - 4.17½ against the mark, for example - but closed no better than mixed, stronger at 4.16½ in Germany and at 3.87½ against the Swiss franc but softer at 9.67½ in Paris. On the whole the dollar held up despite the lower interest rates, with the help of some official support. The Fed bought \$50mn. against marks yesterday. Today, the Bundesbank bought \$30mn. although their mark (1.7908) weakened on the day. The French franc (4.1597) attracted buyers again. It remained top of the EMS, 2½% above the lira (841.15). The Banque de France bought \$30mn. and an equivalent amount of marks. The Dutch bought \$10mn. and \$28mn.-worth of marks. Outside the EMS, the Swiss franc, following the mark's footsteps, eased to 1.6635; the SNB bought \$395mn. on the swap. The Riksbank sold another \$62mn. The Canadian dollar sobered up after yesterday's excitement (when the Bank of Canada added \$98mn. to reserves), but the yen was again sought after. The central bank bought \$320mn. before a close in Tokyo of 224.05; in London the currency advanced to 223.92.

Gold was subdued, fixing at \$507½ and \$501. It traded briefly below \$500.

Operations:	Market	+	\$2mn.
	Interest	+	13
	Kenya	+	11
	Mauritius	+	9
	Iraq	+	5
	Ghana	-	16
	Sundries	-	9

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+ 15mn.
