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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 2nd June 1980

Sterling was again weakened by selling bouts, particularly this afternoon, for no discernible reason. The dollar grew stronger in most other centres as the day wore on. As a result, the ERI eased only to 74.2.

New York was quiet on Friday evening and the pound closed there at 2.3505. It was in some demand today in Far East trading and, after opening at 2.3577, rose in London to 2.3595 before subsiding to reach 2.3533 at noon. By mid-afternoon, following two-way commercial business, the selling became heavier and more widely based. Sterling fell to 2.3375 before closing at 2.3393. Eurodollars opened well bid and shaded down 1/16% by the close, with three months at 10 3/16%; forward margins moved a little narrower and the intrinsic premium for sterling contracted to 9/16% p.a.

The pound had mixed fortunes in Europe, making a small improvement in Germany (4.16½) and Switzerland (3.88) but easing in France (9.68½). With one eye on Eurodollar rates, sentiment favoured the dollar which showed increasing strength as time passed. It rose to 1.7805 in Germany, to 4.1402 in France; but declined to 835½ in Italy, bringing EMS back to 1 13/16% in width. The Swiss franc eased to 1.6585 and the yen, which had closed in Tokyo at 222.70, to 223.30.

Gold reflected the concern over the sabotage in the Orange Free State and hit over \$577 in Hong Kong. In London fixings took place at \$563 and \$561.60. Business was thin.

Operations:	Market	-	\$20mn.
	Interest	+	6mn.
	Sundries	-	4mn.
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			- \$18mn.
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	Overnight	-	\$14mn.
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