

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 3rd June 1980

Sterling suffered a swift and savage spate of selling this afternoon following the Prime Minister's assertion that the reduction in the EEC budget contribution should be applied towards a reduction of interest rates. Elsewhere the dollar eased this afternoon after a steady morning session. Sterling's ERI fell from 74.2 yesterday to 72.9 at the close.

The pound finished soft in New York yesterday at 2.3327; the IMM were persistent sellers. This morning sterling opened at 2.3378 but, despite a steady dollar, quickly retreated to 2.3270 before recovering to 2.3350 at midday. Early Americans bid for sterling and the rate recovered to 2.3445. The reserves announcement had no impact but sterling began to drift off again in company with the dollar. The pound was around 2.33 when the Prime Minister made her statement. Sterling was immediately offered and widespread, general selling developed. New York, in particular, offered large amounts. The pound fell in short order to 2.29 before turning. A Treasury spokesman's suggestion that the short-term outlook for interest rates remained unchanged helped to steady the market and some large potential buyers of sterling were seen in the wings. The pound recovered to close at 2.2990. Three months' cover cost 6% p.a. and the covered differential widened to 1/2% in London's favour.

Sterling lost 1 1/4% in Paris (9.52) and 2% in each of Zurich (3.80 1/2) and Frankfurt (4.08 1/2). The deutschemark and Swiss franc firmed to 1.7755 and 1.6537 respectively against the dollar. EMS widened to 2% between the French franc (4.1410) and lira (836.75). The Dutch bought marks worth \$14 mn. In Scandinavia the Norwegians took in \$18 mn. and the Swedes spent a further \$28 mn. The yen closed at 223.50 in Tokyo and 222.80 in London.

Gold tended easier over the day. Fixings were \$554.50 and \$552.50.

Operations:	Market	- \$112 mn.
	Interest	+ 17
	Iran	+ 15
	Iraq	+ 12
	Bangladesh	- 12
	Sundries	- 2
		<hr/>
		- \$82 mn.
		<hr/>

JGH  
3rd June 1980  
JGH