

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 10th June 1980

A strange day. Rumours that good banking figures would herald a cut in MLR put sterling under considerable pressure early on. The figures themselves dispelled this expectation; confused but rather disquieting reports came out of the OPEC conference in Algiers; and the pound rallied, closing only 0.4 down in effective terms at 73.5 after an unpublished 72.9. The dollar was generally soft on a further fall in interest rates. Gold fell back.

Having eased to 2.3430 in New York, sterling started at 2.3440 this morning. However, an early 2.34½ proved the highest rate of the day; before long expectations of a cut in interest rates gripped the market, and sizeable selling from the Continent drove the rate down to 2.32 by mid-morning although the dollar itself was tending easier in other centres. Sterling reacted to 2.3310 at noon, but then fell again to 2.3180 when early New Yorkers entered the lists. Confused reports of the outcome of the OPEC conference in Algiers boosted sterling 1 cent, however, and the rate stood around 2.32½ when publication of the banking figures banished hopes of an early cut in MLR. The market seized on this implication rather than on the figures themselves; sterling jumped ½ cent and spent most of the rest of the day at the higher levels, touching 2.3380 before closing quietly, if still nervously, at 2.3337. Having opened at 7%, the cost of cover rose to 7 5/16% under the influence of the banking figures and a further decline in euro-dollars to fresh lows (9% after allowance for technical factors in the three months). Sterling's intrinsic premium closed at ½%.

The pound weakened in Europe, to 4.11 against the mark and to 3.78½ and 9.57% in Switzerland and Paris. Yet lower interest rates made for a weakish dollar last night (when the Fed bought \$177 mn., \$93 mn. against marks and the rest against Swiss and French francs) and again today. The mark touched 1.7562 before closing only slightly stronger at 1.7608. The Bundesbank bought \$7 mn. The EMS stretched to 2½% between the French franc (4.1035) and the lira (831.40), but the weakest 2¼% currency, the Belgian franc, closed only 1¼% below the French. The Italians sold another \$69 mn., and the Irish, \$14 mn.; the Netherlands Bank however bought \$10 mn. and \$17 mn.-worth of marks. Outside the EMS, the SNB, having bought \$58 mn. in New York; creamed in \$10 mn. today. Their franc closed little changed at 1.6220. The Swedes sold \$33 mn., but the Norwegians bought \$40 mn. The Bank of Japan bought \$146 mn. to contain the rise in their yen to 215.90 in Tokyo; it closed there in London, after 215.05.

Gold weakened on substantial selling. Fixings were at \$606½ and \$604; the price touched \$592 in between.

Operations:	Market	- \$24 mn.
	Iran	+ 30
	India	+ 12
	Government	+ 12
	Sundries	+ 2
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		+ \$32 mn.