

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 29th February 1980

A very active day's trading left the dollar much firmer generally on widespread expectations of higher interest rates, tighter monetary policy and a package of credit controls and perhaps fiscal measures. The deutschemark received substantial official support, although the Swiss franc suffered greater pressure. This again brought problems in the EMS for the Belgian franc. Sterling, as often, stood aloof from the turmoil. The ERI rose to 73.2, after 73.3 this morning.

The pound closed at 2.2836 in New York overnight and opened at 2.2827 this morning. The dollar soon began to firm, initially in Switzerland, as eurodollars were bid sharply higher but sterling was quite steady and even advanced to 2.2837 on the early exchanges. Soon enough, however, the dollar's continued strength caused sterling to drift lower and scattered offering of pounds in London and Paris drove the rate down through 2.28. New York's return this afternoon brought another surge for the dollar and a flurry of small sellers in a thin market took the pound back to 2.2690. However, cheap buyers appeared in size from Paris and the Middle East and, while other currencies continued to weaken, sterling recovered to close at 2.2745. Sterling deposits, as eurodollars, were firmer and forward margins narrowed only slightly. Three months' cover cost 1 11/16% p.a. and the intrinsic discount fell to 7/16%.

Sterling gained 1½% on the Swiss franc (3.37½), 1¼% on the French franc (9.55½) but only ¾% on the deutschemark (4.03½) which was heavily supported. The Bundesbank sold \$142 mn. and \$300 mn. outright forward. The deutschemark weakened to 1.7760. The Swiss franc crashed to 1.7030 (SF.0.95½ to the mark) and the Swiss sold \$100 mn. outright forward. The EMS closed at 2 1/16% in width between the lira (821.35) and Belgian franc (28.83). The Belgians again mixed a large and varied cocktail, selling \$10 mn., \$10 mn. of Dutch guilders, \$16 mn. of French francs and \$46 mn. of lire. Their franc finished at 75 on the index of divergence, having earlier crossed the threshold. The Irish, too, sold \$25 mn., their punt (2.0790) at 8½% discount on sterling. The yen closed at 249.80 in Tokyo, where the Japanese spent \$155 mn. Later it fell sharply to finish in London at 251.40.

Gold was a peaceful oasis. Fixings were \$640 and \$637.

Operations:	Market	- \$11 mn.
	Bangladesh	- 11
	Swaziland	+ 5
	Sundries	- 4
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		- \$21 mn.
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	Overnight	- \$14 mn.
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The result for February was a reserve increase of \$229 mn., to a level of \$23,935 mn., after net public sector debt repayments of \$139 mn. The overbought forward position was increased by \$432 mn. to \$1,237 mn.