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SECRET

THE DEPUTY GOVERNOR

GOLD & FOREIGN EXCHANGE MARKETS

Tuesday 4th March 1980

Sterling was again substantially weaker today as the dollar gained added vigour from another increase in Prime Rate by several major U.S. banks. The yen and the deutschemark again received official support. Sterling's ERI dropped from 72.6 to 71.7 - making a 2% fall in two days.

Having closed in London at 2.2530 yesterday, the pound was later sold down to 2.2290 in New York before closing at 2.2310. This morning it opened at 2.2365 and, with the dollar drifting off on the opening exchanges, topped 2.24. A substantial Swiss buyer reinforced the trend and sterling touched 2.2455 at best. Some offerings from the Middle East, however, and a resurgence in the dollar took sterling back to trade either side of 2.24 into the afternoon. New York again returned to bid for dollars and sterling was sold. Volume was not as large as that of yesterday but sterling was persistently offered nonetheless and fell without let to 2.2245 before closing at 2.2255. Later, after business as low as 2.2222, the pound regained a cent and more on short covering. Eurodollar deposits were around 1/2% better bid by the close and sterling deposits were nearly 3/8% firmer. The cost of three months' cover rose slightly to 15/16% p.a. and the adverse covered differential increased to 13/16%.

The pound lost 1% in France (9.32 1/8), Germany (3.97 3/4), and Switzerland (3.82 1/8). The Swiss did not support their franc, which weakened to 1.7167 (and later to 1.7217). The Bundesbank, however, sold a further \$309 mn., the deutschemark easing to close at 1.7872 (and later to 1.7910). The EMS remained around 2% in width between the lira (827.75) and Belgian franc (29.04). The latter finished at 76 on the index of divergence despite official sales of \$17 mn., \$5 mn. of French francs, \$24 mn. of guilders and \$30 mn. of lire. Meanwhile, the Japanese continued to shell out ammunition in support of the yen. \$43 mn. was spent in New York yesterday (with the Federal Reserve selling a further \$43 mn. against yen for their own account) and \$989 mn. were put out in Tokyo this morning to bring a close for the yen of 248. Thus drained, the market responded and the yen was bid up to close at 246.25 in London.

Gold was surprisingly steady for much of the day. Fixings were \$633.25 and \$631.25 and by the close the price had risen again to \$642.

Operations:	Market	- \$26 mn.
	Jamaica	- 5
	Nigeria	+ 322
	India	+ 11
	Sundries	+ 16
		<u>+ \$318 mn.</u>

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