

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday 6th March 1980

Rumours of an impending hike in US discount rate were reflected in sharply higher euro-dollar deposits. The dollar improved further, despite massive sales by the Bundesbank. Sterling moved erratically, the ERI falling 0.3 to 72.0 after (an unpublished) 71.6.

Having softened to 2.2405 last night in New York, sterling opened well down at 2.2372. The rate rose to 2.2375 in the early exchanges, but the pound was soon under selling pressure and Continental selling drove the rate down to 2.2260. A Middle Eastern buyer found this level attractive, however, and his business pushed the rate back to 2.2342 by mid-morning; but, with euro-dollars at unheard-of levels, this rate could not be sustained, and the pound eased to 2.2310 at noon. Although the business was rarely heavy, sellers - the earlier Middle Easterner prominent among them - were dominant for the first half of the afternoon, and the pound fell to 2.2152 before bargain-hunters reappeared. The rate closed a more comfortable 2.2270, and rose to 2.2327 in late trading. Rumours of a substantial increase in Fed discount rate raised 3-months' euro-dollars to 18 13/16%, no less than 1% up on the day after allowance for technical factors. Not surprisingly, the cost of cover backed to 3/16%; with interbank sterling steady, the covered differential against London narrowed to 3/8.

The pound lost ground on the Continent at first, but recovered some of it to close only a touch weaker against the mark (4.00 1/4); it softened rather more against the Swiss franc (3.82 1/4) and the French franc (9.36 1/4). Rumours, which a denial failed to dispel, that Fed discount rate would be raised by 2% or more brought strong demand for dollars; a false report that Chase Manhattan had raised prime rate to 18% fanned the flames, as did the Tehran students' offer to hand the hostages over to authority. 1.7992 was the weakest rate for the mark. It closed at 1.7970, the Bundesbank having sold a gigantic \$969 mn. - making nearly \$2 1/2 bn. in March so far. The Swiss franc fared a little better, closing at 1.7157 after 1.7192; the SNB sold \$195 mn., and found the time to sell \$65 mn. against yen to help the Japanese. The guilder (1.9725) and the Belgian franc (29.19) spanned the EMS, closing 2% apart. The Belgians shook their usual cocktail, today worth \$55 mn. The Irish sold \$34 mn.; the other EMS currencies were as comfortable as could be expected. The French franc closed at 4.2070. The Bank of Japan gave only \$69 mn. of support today up to a Tokyo close of 247.65, having sold \$50 mn. in New York last evening. The yen closed in London at 248.75.

Gold weakened at last, fixing at \$634 1/4 and \$626. It later traded down to \$621 1/2.

Operations:	Market	- \$47 mn.
	India	+ 11
	Sundries	+ 1
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		- \$35 mn.
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