



THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 13th March 1980

The dollar bounced back with a vengeance today as the market faced the prospect of an imminent package from Washington. The atmosphere was not so much one of optimism as of the inevitable: whatever the nature or impact of the measures, interest rates were seen higher and dollars a scarce commodity. Sterling was sold down with the rest but weathered the onslaught as well as most. The ERI fell to 72.2.

The pound closed at 2.2355 in New York yesterday after business down to 2.23. This morning it opened at 2.2325 but quickly declined as the dollar tended firmer. Further impetus was given by a very large selling order from the Middle East and sterling fell in short order to 2.2232 before stabilising either side of 2.2250. This range lasted into the afternoon but Americans returned determined to hold their own currency and the dollar strengthened on a broad front. The pound encountered some sellers and was offered down to 2.2186 before closing at 2.2210. Sterling's three month forward premium widened sharply to 11/16% p.a. in anticipation of higher US interest rates. The adverse covered differential was little changed at 1/4%.

The pound was a little cheaper in Paris (9.44) but firmed a touch in Frankfurt (4.04 1/2) and Zurich (3.86 1/2). The deutschemark eased to 1.8202 and the Bundesbank sold \$19 mn., swapping in \$600 mn. to ease liquidity. The Swiss franc weakened to 1.7422, the Swiss expending \$20 mn. The French franc (4.25 1/2) and Belgian franc (29.54) spanned the EMS which widened to a little over 2%. The Belgians sold \$32 mn., \$58 mn. of French francs, \$40 mn. of guilders and a few Swiss francs, their own franc finishing at 76 on the index of divergence. Elsewhere, too, the Irish sold \$36 mn. and the Danes \$9 mn. The yen closed at 247.40 in Tokyo but eased to 248.05 in London.

Gold mirrored the dollar's movements, easing a little this morning, when it was fixed at \$574.30, but falling rather more readily this afternoon when another difficult fixing set a level of \$556.10.

Operations:	Market	- \$15 mn.
	Kenya	- 24
	BIS	+ 18
	IDA	+ 11
	Germany	+ 11
	Government	+ 10
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		+ \$11 mn.
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