

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 14th March 1980

The dollar strengthened sharply on the exchanges this morning in anticipation of President Carter's package later today. Sterling, as often, fared rather better than the Continental European currencies. This afternoon, however, the mood in New York changed to one of caution and the dollar gave up a good deal of the ground gained earlier. Sterling's ERI as a result rose slightly to 72.3 after 72.1 this morning.

The pound closed at 2.2185 in New York yesterday. This morning, however, the Far East took the dollar very much higher and sterling opened in London at 2.2075. Profit-taking on the opening exchanges brought a quick reaction and, after touching 2.2040, following some sizeable Swiss selling, the pound recovered to around 2.21. Later the dollar began a further broad advance and sterling declined gradually. Some commercial selling of pounds accompanied the drift and sterling flirted with 2.2020 several times, touching 2.2017 eventually in mid-afternoon. At that point, confidence in the dollar seemed to evaporate and the pound recovered in comfort to 2.2135 before closing at 2.2117. Eurodollar deposits were much better bid and, with their sterling counterparts little changed, sterling's three month forward premium widened sharply again to 1% p.a. The adverse covered differential rose to 7/16%.

The pound gained $\frac{1}{8}$ % in Germany (4.04%), $\frac{1}{4}$ % in France (9.48%) and $\frac{1}{8}$ % in Switzerland (3.89%). The European currencies all closed much weaker against the dollar yet well above the day's worst levels. The deutschemark was 1.8310 (after 1.84) and the Swiss franc 1.7595 (after 1.7692). The Swiss National Bank sold \$110 mn. and swapped in \$200 mn., while the Bundesbank spent \$175 mn. The EMS suffered typical weekend strains closing fully-stretched between the French franc (4.2880) and Belgian franc (29.85). The latter closed at 78 on the index of divergence and the Belgians shelled out \$11 mn., \$50 mn. of guilders, \$58 mn. of lire and \$170 mn. of French francs - \$289 mn. of exchange in all. For their part the French bought Belgian francs worth \$7 mn. The Danes, too, were under pressure and let out \$99 mn. in support of their krone. The Irish sold \$10 mn. The yen weakened to 248.80 in Tokyo and closed in London at 248.83 (after 249.52). The Japanese sold \$29 mn. in New York yesterday and \$34 mn. in Tokyo this morning.

Panic selling of gold set in from the opening this morning and the metal tested \$500 in the fixing before the price was fixed at \$502.75. This afternoon the dollar's reversal brought some recovery for gold and the fixing set a level of \$523. Later still the South African Finance Minister suggested that a substantial proportion of the country's production could be withheld from the market if necessary. The metal made further gains only to relapse to the fixing level by the close.

Operations:	Market	-	\$9 mn.
	IDA	+	3
	Sundries	-	1
		-	\$1 mn.

14th March 1980
JGH