

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 17th March 1980

The initial response to President Carter's package of fiscal and monetary measures was encouraging. The dollar was very firmly bid, in both exchange and deposit markets, and gains of 2-2½% were scored across the board by midday. Domestic American opinion, however, was somewhat less appreciative and a counter-reaction set in this afternoon. Sterling, as usual, was marked down but rather less sharply than the Continental European currencies. The trade figures were quite well received and the pound finished on a very steady note. The ERI closed a touch lower at 72.2 after 71.6 at midday.

The pound closed at 2.2085 in New York on Friday but opened a good deal easier at 2.1922 this morning. The early exchanges were uncertain and sterling touched 2.1956. However, the trend was again set in the deposit market and when American banks began aggressive bidding for funds, the dollar started an apparently inexorable advance. Volume in sterling was light but the pound went into steady decline nonetheless and fell three cents to 2.1650 by early afternoon. Returning Americans brought a reaction in the dollar and sterling recovered to 2.1852, some useful demand emanating from the Middle East and Continental Europe. The dollar then resumed its upward march and the pound stood at 2.18 as the trade figures were published. These excited some further late demand for pounds and, while the dollar remained very firm elsewhere, sterling improved to close at 2.1865. Eurodollar deposits fluctuated quite widely in response to the demand of the moment. Three months' money neared 20% at one stage and closed ¼% better bid on the day. Sterling's three month forward premium rose to 1 9/16% p.a. and the adverse covered differential fell to 5/16%.

The pound gained ½% in Switzerland (3.90%), ¾% in France (9.56%) and 1½% in Germany (4.09%). The deutschemark bore the brunt of the dollar's advance easing over 2½% to 1.8735 (after 1.8770). The Bundesbank sold \$193 mn. The Swiss franc lost 1½%, closing at 1.7877 (after 1.7932); the Swiss spent \$130 mn. The EMS finished the day at 2 3/16% in width between the French franc (4.3740) and Belgian franc (30.43). The latter closed at 77 on the index of divergence and the Belgians sold \$10 mn., \$17 mn. of guilders, \$25 mn. of French francs and \$58 mn. of lire. The French took in a token amount of Belgian currency. The Danes spent \$10 mn. The yen remained relatively unshaken, buoyed by widespread expectations of a further increase in Discount Rate. Nonetheless, the Japanese sold \$10 mn. on Friday in New York (where the Federal Reserve, too, sold \$5 mn. for their own account against yen) and \$60 mn. in Tokyo this morning. The yen closed there at 249.40 and finished at 249.27 in London.

Gold opened much weaker but thereafter mirrored the dollar's changing fortunes. Fixings were \$480 and \$484, over \$100 lower than a week ago.

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| Operations: | Market | + \$1 mn. |
| | IDA | + 2 |
| | Sundries | + 2 |
| | | <hr/> |
| | | + \$25 mn. |

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