

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 27th March 1980

Sterling weakened in overnight selling, the ERI falling 0.4 to 72.5 close-to-close. During the day, however, the effective fell only slightly, recovering from an (unpublished) 72.3 in mid-afternoon. The mark sank to the foot of the EMS. Gold fell.

Chicago dealers inferred some weakness from the Chancellor's budget speech, and sterling had a rough ride last night, closing in New York at 2.1752. It was only towards the close of trading there that other currencies too began to weaken appreciably against the dollar. 2.1741 was the first rate this morning, but other currencies too were lower against the dollar. Although some London banks sold pounds, there was no follow-through, and sterling rose to 2.1846 in mid-morning before relapsing to 2.1775 at noon. The rate dipped to 2.1685 this afternoon when early New Yorkers showed themselves as sellers; they were joined by their compatriots in Chicago, but fair-sized buying from the Middle East pushed sterling to 2.1827 before the official close was taken at 2.1750. Late buying took the rate close to 2.18 again. With little change in interest rates and the premium on forward sterling, the intrinsic discount closed at ¼%.

Sterling weakened against the French franc, but improved strongly against the mark, to 4.18½, and against the Swiss franc (3.98). High domestic interest rates (Federal funds traded as high as 25% yesterday, albeit make-up day) strengthened the dollar in New York and further in most centres today. The Fed bought \$37 mn. of marks. The Bundesbank today confined themselves to selling \$33 mn., although their currency weakened 1½% to 1.9225 (after 1.9227, a new recent low). No monetary measures were announced. At the close, the mark was by a whisker bottom of the EMS, just below the Belgian franc and the Danish crown. The French were the biggest buyers of marks - \$101 mn.-worth, as well as \$19 mn., \$41 mn.-worth of Swiss francs, and \$5 mn.-worth of Belgian francs. Their franc fell barely 1% against the dollar, to 4.4345, 2 1/16% above the mark - the drift of other currencies has left it rather isolated in the EMS, and at - 64 it is now the most divergent. The Belgians sold \$6 mn.-worth of French francs, the Danes \$18 mn.-worth and \$23 mn., and the Dutch, although their currency was comfortable enough, \$10 mn. Outside the EMS, the Swiss sold \$20 mn.; their franc fell no less than 2½% against the dollar, to 1.83. The Norges Bank on the other hand bought \$100 mn. and the Canadians, yesterday, \$71 mn., after several days of support. The dollar was strong in Tokyo, where the central bank gave the yen \$398 mn. of help to a close of 249.65 - the first heavy support for three weeks. The yen eased to 249.87 in London.

Selling of gold was quite heavy. The fixings were at \$486 and \$485½, but later trading was down to \$471. Rumours of trouble in the silver market, where the price is falling steeply, may have infected gold.

Operations:	Market	+ \$13 mn.
	Interest	+ 42
	IDA	+ 6
	Sundries	- 4
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		+ \$57 mn.
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