

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 1st April 1980

The dollar continued its relentless upward ride today, drawing further substantial sales from the major Central Banks. Sterling met widespread selling this morning but recovered strongly this afternoon when bargain hunters emerged in size from the Middle East and United States. The ERI fell to 72.3.

The pound closed over a cent lower in New York yesterday at 2.1525; the dollar was generally much firmer and the Federal Reserve were big buyers of currencies. This morning sterling began at 2.1510 and touched 2.1525 on the early exchanges as the Far East took profits in the dollar. Soon enough, however, the dollar resumed yesterday's strong upward trend and sterling was widely sold, falling some 2½ cents to 2.1270 in around two hours. For all this the market remained very orderly and it seemed that buyers were never very far away. Eventually, the familiar Middle East professionals came in to bid for pounds and sterling recovered a cent in short order. The early afternoon passed comfortably either side of 2.1350. Later, however, New York and Chicago showed strong demand for the pound which advanced to 2.1475 before closing at 2.14. Sterling's three-month forward premium narrowed sharply to 1% p.a. as eurodollar deposits turned markedly softer. Sterling retained an intrinsic premium of 1/16%.

The pound closed fractionally easier against each of the Swiss franc (3.99%), French franc (9.70%) and deutschemark (4.21%). Yesterday in New York, the Federal Reserve sold \$332 mn. for deutschemarks, \$54 mn. for Swiss francs and \$20 mn. for yen. The Swiss themselves sold \$10 mn. and the Japanese spent \$135 mn. defending the 250 level. This morning in Tokyo, the Bank of Japan succumbed to the pressure, allowing the yen to close at 253.70, while still selling \$442 mn. In London it eased to 254.60 and went on in New York to break 255. The announcement of a ¥200 bn. support package between the Swiss and Japanese did little for either of their currencies. The Swiss franc touched 1.8777 before closing at 1.8687. The Swiss sold \$100 mn. outright forward. The Bundesbank shelled out \$406 mn. and French francs equivalent to \$36 mn., the mark touching 1.9795 before closing 1% weaker at 1.9687. The French franc (4.5340) continued to lead the EMS with the mark and Belgian franc (31.57) both finishing at the full 2½ distance. The Belgians sold \$5 mn. of French francs, while the French took in \$39 mn. of marks and swapped out \$110 mn. The Dutch, despite the guilder's comfortable position in the band, turned out \$255 mn. and the Irish, too, sold \$20 mn.

Gold traded quietly and steadily either side of \$500, with fixing levels of \$501.50 and \$509.50. The metal paid little heed to the dollar but rather seemed to follow silver which gained ground as the day progressed, only to sell off towards the close.

Operations:	Market	+ \$21 mn.
	Interest	+ 9
	South Africa	- 6
	Sundries	+ 2
		<hr/>
		+ \$26 mn.
		<hr/>
	Overnight	+ \$6 mn.
		<hr/>

The result for March, after the annual revaluation, is a reserve increase of \$3,028 mn. to a level of \$26,963 mn. \$2,824 mn. of the increase is due to the revaluation. The overbought forward position is increased by \$1,380 mn. to \$2,617 mn. The revaluation accounts for \$1,285 mn. of this increment and almost all of this is attributable to the ECU swap.

1st April 1980

JGH