

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 8th April 1980

Another marked softening in deposit rates set the dollar on a gradual decline this morning and the pace accelerated following Iran's threatened oil embargo against those imposing sanctions on the country. Sterling elicited no great general interest but was persistently taken by a familiar jobber from the Middle East. As a result the ERI rose from 72.3 to 72.8.

During the Holiday weekend, a sharply weaker yen pushed the dollar generally higher but the strength in US fixed interest securities and a resultant decline of some $\frac{1}{2}\%$ in interest rates brought a reversal on Monday afternoon. Sterling was sold down to 2.1275 but recovered to over 2.14 before closing yesterday in New York at 2.1355. This morning the pound began at 2.1368, topped 2.14 on the early exchanges, then settled to trade quietly through the morning, touching 2.1365 at one stage. The dollar showed no marked trend. This afternoon, however, the dollar began to ease and the movement accelerated as time passed. Sterling was heavily bought from the Middle East and this sparked general covering. The pound advanced to 2.1580 at the close and traded on afterwards up to 2.1692. Sterling's three-month forward premium was 1 $\frac{3}{16}\%$ p.a. and the covered differential was $\frac{1}{4}\%$ in London's favour.

The pound gained $\frac{1}{8}\%$ in Germany (4.21 $\frac{1}{2}\%$), $\frac{3}{8}\%$ in France (9.71 $\frac{1}{2}\%$) and nearly $\frac{1}{2}\%$ in Switzerland (4.00 $\frac{1}{2}\%$). The Swiss franc recovered to 1.8540 (later 1.8440) but fell to 0.95 against the mark. The Swiss sold \$30 mn. and \$60 mn. outright forward. On Friday they sold \$5 mn. in New York. The deutschemark closed at 1.9515 (later 1.9435). The Federal Reserve sold \$18 mn. yesterday against marks and the Bundesbank today sold \$50 mn. and French francs worth \$28 mn. The French franc (4.50) continued to lead the EMS, with the Belgian franc (31.30) and Danish krone (6.0747) both 2 $\frac{1}{4}\%$ adrift. The Belgians sold \$33 mn. of French francs on Friday but did nothing today, while the French bought \$2 mn. of Belgian francs and \$12 mn. of marks on Friday and marks worth \$53 mn. today. The yen weakened sharply to over 264 in Tokyo on Monday but recovered to close there at 260.70 today. The London close was 259.60. The Japanese sold \$2 mn. on Friday, \$59 mn. on Monday and \$5 mn. this morning.

Gold responded to the Iranian news and was bid sharply firmer as the day progressed. Fixings were \$518.40 and \$528 and the close around \$540.

Operations:	Market	+ \$42 mn.
	India	+ 21
	Interest	+ 8
	Egypt	+ 6
	British Gas	
	(PSB G'teed)	- 10
	Government	- 8
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		+ \$59 mn.
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	Overnight	+ \$24 mn.
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