

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 17th April 1980

The dollar gyrated widely and sometimes wildly today in response to fluctuating interest rates. On balance, it closed weaker. Sterling was generally firm and met good demand at times. The ERI rose to 73.1.

The pound closed at 2.2265 in New York yesterday and opened at 2.2282. After touching 2.2232 on the early exchanges, sterling strengthened, as did the dollar. Some demand was seen from investment-oriented institutions on the Continent, suggesting perhaps demand for the tap. A sizeable commercial buying order, too, was seen. The pound traded up to 2.2325 but, as the dollar continued to improve from a very weak start, it came back to around opening levels. New York sold the dollar at first and sterling advanced again; some demand was felt from the Middle East. The pound touched 2.24 at best. The dollar, however, had the last word, responding to a weaker domestic US market, and sterling came back to 2.2270 before closing at 2.2290. The money supply and trade figures were generally supportive but did little themselves to move the market. Sterling's three-month forward premium narrowed sharply to 5/16% p.a.; three-month eurodollars closed 3/8% softer at 17 1/2% and the covered differential was 3/16% in London's favour.

Sterling gained a little ground in France (9.61%) and Germany (4.13%) but made up 1/8% in Switzerland (3.87), where the Swiss franc could not hold yesterday's gains and closed easier at 1.7362 to the dollar. The deutschemark, however, firmed to 1.8562. Yesterday the Federal Reserve bought dollars in size against marks (\$160 mn.), French francs (\$27 mn.) and Swiss francs (\$20 mn.). Today, however, there was no significant intervention by EMS Central Banks. The lira (873 1/2) fell sharply within the system to the bottom of the band, closing 2 1/2% below the French franc (4.3140). The yen closed at 247.80 in Tokyo and 248.10 in London.

Gold weakened in New York yesterday, where all metals fell following the sharp decline in US housing starts. Trading was steady today around the lower levels. Fixings were \$511.50 and \$513.

Operations:	Market	+ \$49 mn.
	Interest	+ 14
	Sundries	- 1
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		+ \$62 mn.

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