

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 25th April 1980

The aborted American sortie into Iran brought a highly nervous opening to the exchanges this morning. Markets soon settled, however, and the dollar was left a little weaker on balance. Sterling met good demand this morning and, though volume was somewhat more modest this afternoon, it continued to trade ahead for much of the afternoon. The ERI rose to 73.8, after 74.1 at noon - its highest level since the index was rebased.

The pound closed lower in New York yesterday at 2.2625. The Far East took the dollar a little better and sterling began this morning at 2.2575. The turn of events in Iran then hit the market. Spreads widened; prices moved sharply; the dollar generally weakened. Sterling was quoted around 2.27½. As the initial, extreme nervousness began to abate slowly, the trends were reversed and the pound eased back. However, strong outright demand from Swiss and German banks (possibly against calls on gilts) underpinned the rate and the pound advanced to 2.2850 by midday. Sterling retained its shine into the afternoon and 2.2935 was eventually paid. Demand did not persist, however, and, with nerves still somewhat frayed, sterling declined erratically to close at 2.2780. Eurodollars firmed somewhat over the day but shorter forward margins were little changed. Three months' cover cost ¼% p.a. but the covered differential fell to 3/16% in favour of London.

The pound gained ¼% on the Swiss franc (3.85½) and ¾% on the French franc (9.63½) and deutschemark (4.13½). These all closed a little firmer on the dollar at 1.6915, 4.23 and 1.8150 respectively. The Bundesbank purchased \$76 mn. and the Swiss bought \$45 mn. The Dutch, however, sold \$31 mn. and \$11 mn.-worth of marks. The EMS contracted further to 1 7/16% in width between the French franc and Danish crown (5.6725). The yen closed at 245.90 in Tokyo and 245.30 in London.

Gold was in strong demand this morning but, after fixing at \$552, met some resistance. After New York opened, the metal advanced again to \$564 but the later fixing set a level of \$551.50 and the price fell further afterwards to \$547.

Operations:	Market:	
	Spot	+ 31
	Forward	+ 37
	BIS	+ \$68 mn.
	France	+ 9
	Government	+ 6
	Sundries	- 7
		+ 6
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		+ \$82 mn.
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