

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 28th April 1980

Further steep declines in the US monetary aggregates brought another sharp fall in eurodollar deposit rates this morning and made for a distinctly softer dollar. Vance's resignation, too, was cited as a bear point for the currency. Sterling was in strong demand this morning but came on offer late in the day once the dollar steadied. The ERI fell to 73.7, after 74.1 again this morning.

The pound closed little changed at 2.2785 in New York on Friday. The Far East took the dollar substantially lower and sterling opened here this morning at 2.2890. The dollar firmed on the early exchanges in response to a large order from the Middle East to sell Swiss francs. Sterling dipped to 2.2872 but then advanced strongly as keen interest in pounds was evinced from European banks. 2.3005 was eventually paid, and by this time the dollar was well offered again. With the market's appetite sated, sterling turned and settled around 2.2950, a level which persisted into mid-afternoon. The dollar, too, was stabilised a little above the day's lows. The rest of the day belonged to the dollar. Despite a 1% reduction in Prime Rate by Morgan Guaranty (to 18½%) and a large Middle Eastern buyer of yen, it made a spirited recovery. Sterling was thus depressed and found late sellers from London, the Middle East and Chicago. The pound fell quickly to 2.2867 before closing at 2.2870 but traded on down to 2.2750 afterwards. Eurodollar rates declined again by as much as 1% and forward margins widened substantially. Three months' cover cost 1 9/16% p.a. and sterling's intrinsic premium rose to 5/16%.

The pound lost ¼% against the deutschemark (4.11¼) and French franc (9.59¼) and ¾% against the Swiss franc (3.81¼). These were all much firmer on the dollar at 1.7980, 4.1940 and 1.6702 respectively. The exceptional strength of the Swiss franc (0.92¼ to the mark) lay perhaps in their lack of support for the dollar (beyond swapping in \$350 mn.) The Bundesbank, by contrast, bought \$80 mn. (the Federal Reserve having taken in \$8 mn. for marks on Friday.) The EMS widened to 1¼%, the lira (846¼) replacing the Danish krone at the bottom of the band. The Dutch sold deutschemarks equivalent to \$58 mn. and the Irish sold \$12 mn. The yen closed at 243.20 in Tokyo and firmed sharply to 240.75 in London behind Arab buying.

Gold again failed to respond to the dollar's weakness and drifted aimlessly lower throughout the day. Fixings were \$535.25 and \$524.25.

Operations:	Iran	+ \$40 mn.
	Interest	+ 27
	India	+ 23
	Ireland	+ 23
	BIS	- 10
	Government	- 6
	Sundries	- 8
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		+ \$89 mn.
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