

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 30th April 1980

Sterling appeared to undergo a fundamental reappraisal today as it weakened on all fronts for no apparent reason. However, behind the movement lay the unwinding of a very large speculative position against the Swiss franc. Meanwhile, the dollar remained remarkably steady, despite further increases in official German interest rates. Sterling's ERI fell from 73.2 to 72.6.

The pound closed easier at 2.2670 in New York yesterday. This morning it opened at 2.2717 but was quickly sold down out of Switzerland and fell to 2.2630 before a single large order, again Swiss in origin, brought a recovery to around 2.27. The rest of the morning appeared quiet, but the market was already in the grip of a Middle Eastern professional who aimed to cut out a position of, perhaps, several hundred million pounds outright forward against Swiss francs. The order was begun earlier this week but its full impact was now felt. Swiss and American banks began selling sterling persistently from early this afternoon. A modest American commercial buyer proved the only comfort for the pound, which declined sharply to 2.2520 before closing at 2.2550. Forward margins steadied. Three months' cover cost 2 3/8% p.a. but, with eurodollars yet softer, sterling's intrinsic premium rose to 3/8%.

The pound lost 3/8% in Germany (4.06 1/2%), 1/2% in France (9.48) and 1% in Switzerland (3.75 1/4). Despite the huge interest in the currency, the Swiss franc advanced no further than 1.6670, the Swiss swapping in \$115 mn. The dollar gained on the deutschemark (1.8008) even after the Bundesbank raised Discount Rate by 1/2% (to 7 1/2%) and Lombard Rate by 1% (to 9 1/2%). The EMS widened to 1 1/4% between the French franc (4.2040) and lira (847.35). The Irish sold \$12 mn. The yen closed at 238.30 in Tokyo where the Japanese bought \$20 mn., and 239.10 in London.

Gold remained fairly firm, though still lacking direction. Fixings were \$519.25 and \$518.

Operations:	Market	- \$27 mn.
	Iraq	+ 23
	Bangladesh	- 11
	Interest	+ 6
	Sundries	- 2
		<hr/>
		- \$11 mn.
		<hr/>

The result for April is a reserve increase of \$1,045 mn. to a level of \$28,008 mn., after net public sector and IMF debt repayments of \$128 mn. \$931 mn. of the increase is attributable to the roll-over of the ECU swap with the EMCF. The overbought forward position was reduced by \$828 mn. to \$1,789 mn. However, this was due entirely to the valuation effects of the ECU swaps; the overbought forward position with the market increased by \$103 mn.

30th April 1980
JGH