

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th May 1980

Further declines in interest rates, more primes falling to 17½%, weakened the dollar across the board. Sterling strengthened less against it than other currencies; the ERI closed unchanged at 73.2 after 73.4 this morning.

Lower interest rates drove the dollar down over the long weekend. Sterling closed in New York last night at 2.2840 (over 2 cents above the London close on Friday) and began in the same vein this morning. 2.2905 was the first rate, and 2.2925 was seen before sterling ebbed to 2.2870 at noon. The pound traded around this level during the afternoon, closing at 2.2860 after 2.2832. Some selling from the IMM pressed the rate back to 2.2797 in late trading. The wholesale price figures had no noticeable effect, and sterling was never the centre of attention. 3-months' euro-dollars fell an astonishing 2%, after allowance for technical factors, from Friday evening's 14%; but the cost of cover rose to 4 7/16%, narrowing the covered margin in London's favour to 5/16%.

As often when the dollar weakens, sterling softened on the Continent, closing at 4.09½ against the mark and at 3.78 and 9.57½ in Switzerland and Paris. Interest rates accounted for the dollar's embarrassment; another steep fall in US money supply no doubt softened their impact. The mark touched 1.7863 before closing at 1.7906, 2½ pfennigs stronger than on Friday afternoon. The Germans bought \$15 mn. today. The French franc (4.1895) retained its position in the EMS, 1 11/16% above the lira (844.05). The Dutch, with an eye on their mark cross-rate, sold \$50 mn.-worth of marks. The Irish bought \$16 mn. No currency was very divergent. Outside the EMS, the Swiss franc touched 1.6440 before closing at 1.6535, but the Swedish crown received another \$35 mn. of support. The yen closed in Tokyo at 234.10, the central bank having bought \$107 mn., and then advanced strongly to 231.65 in London on some expectation that oil money will make its way into the currency.

Gold fixed quietly at \$517½ and \$512½.

Operations:	Germany	+ \$32 mn.
	Bangladesh	- 23
	Interest	+ 7
	Sundries	+ 4
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		+ \$20 mn.
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