

THE DEPUTY GOVERNOR.

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 7th May 1980

Suspension of the 3% surcharge on US discount rate and yet lower market interest rates gave the dollar a weak start, but it tended to recover during the day. Sterling's ERI eased back 0.2 to 73.0 after 73.1 at noon. Some profit-taking halted the yen's recent advance.

Sterling closed last evening in New York at 2.2830. 2.29 was the first rate this morning, and sterling was bid up to 2.2925 in early trading before drifting back to 2.2860 shortly before noon. The banking figures gave rise to light selling during the afternoon, and the pound touched 2.2785 shortly before the official close was taken at 2.2815. Three months' euro-dollars fell yet again, by some $\frac{1}{2}\%$ to $11\frac{1}{2}\%$ after allowance for technical factors. The cost of cover widened only to 4 15/16%, leaving the covered differential rather wider in London's favour at 7/16%.

The pound eased back on the Continent, closing at 4.07 $\frac{1}{2}$ against the mark and at 3.77 and 9.54 $\frac{1}{2}$ in Switzerland and Paris. Lower interest rates - the Fed suspended their 3% surcharge on discount rate and market rates fell again - gave the dollar a weak start from which it made some recovery as the day wore on despite a 1% cut in Chase prime to 17%. The mark closed at 1.7860 (after 1.7767 this morning); the Bundesbank bought \$60 mn. The French franc (4.1852) and the lira (842.50) continued to span the EMS, now only 1 9/16% wide. The guilder (1.9755) received another \$54 mn. of support, \$42 mn.-worth in the form of sales of marks. The Irish sold \$8 mn. Outside the EMS, the Swiss franc advanced to 1.6525 (after 1.6430); the SNB bought \$150 mn. on the swap. Another \$37 mn. of support was given to the Swedish crown, but the Canadian dollar stayed firm after yesterday's addition of \$105 mn. to the reserves. The Bank of Japan bought \$96 mn. in Tokyo, where their yen strengthened to 229.40 before a close of 230.80, but buyers later turned their positions and the currency eased to 232.15 in London.

Gold traded quietly, fixing at \$509 $\frac{1}{4}$ and \$510.

Operations:	Market	- \$4 mn.
	Iraq	+ 11
	IDA	+ 10
	Interest	+ 10
	Government	+ 8
	Crown Agents	- 6
	Sundries	+ 3
		<u>+\$32 mn.</u>

Overnight	+ \$5 mn.
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