

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 16th May 1980

Higher interest rates gave the dollar a firm start but it closed no better than mixed. Sterling fell 0.4 in effective terms to 73.1, mainly it seemed in reaction to the RPI. The fall of the Japanese Government caused a flurry in the yen.

Selling from Chicago ahead of today's retail price figures took sterling down to 2.2877 at the New York close. 2.2925 was the starting rate this morning, and it proved to be the strongest of the day as sterling drifted gently back. The rate stood at 2.2875 when the RPI was published; the first reaction was to mark sterling down, but all the ground had been regained by noon. A delayed reaction brought a low of 2.2775 over lunchtime, but sterling then rose a cent against a generally weaker dollar before closing at 2.2855, a fall of 1½ cents on the day. The trade figures had no effect. What selling there was came from the Continent early on and then from an American bank. Euro-dollars were higher, 3-months' deposits closing at 11½% (½% below the morning peak); but the cost of cover eased to 6 1/16% leaving the intrinsic discount for sterling a touch narrower at 3/16%.

Sterling softened on the Continent, closing at 4.09½ against the mark and at 3.81 and 9.58½ in Switzerland and Paris. Higher euro-dollar rates helped the dollar to open stronger but it later faded. The mark closed a fraction weaker at 1.7936 (after 1.8017). Early selling of French francs fizzled out: the currency closed at 4.1937 (after 4.2127), remaining top of the EMS 1 13/16% above the lira (845.90). The Swiss franc ended a steady 1.6670. The Swedes gave their currency another \$45 mn. of support but the Norges Bank bought \$20 mn. The yen was firm in Tokyo, closing there at 227.40 - the Bank of Japan bought \$4 mn. - but it weakened to 231.80 in London on news that the Government had lost a confidence vote, later recovering to 229.35 at the close.

Gold fixed at \$516.10 and \$516.50.

Operations: Market	- \$17 mn.
Bangladesh	- 7
Government	- 6
Sundries	+ 1
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	- \$29 mn.
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