

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 19th May 1980

Higher market interest rates fully protected the dollar from Friday's US money supply figures, and it rose in most centres without holding the best levels seen early on. Sterling was quietly firm, rising 0.1 in effective terms to 73.2. Gold met late selling.

A prompt increase in US interest rates following publication of the money supply figures left sterling at 2.2842 at Friday's New York close. The first rate this morning was 2.2795, and sterling soon touched 2.2780; but this proved to be the lowest of the day as the dollar backed away from its opening levels. 2.28½ was a typical level during the morning, with sterling edging up to 2.28½ just before noon. Modest buying from Eastern Europe took the rate up to 2.28½ during lunch, but the pound eased back, perhaps under the weight of a commercial selling order, to 2.28½ at the official close and subsequently to 2.2833 in late trading against a slightly firmer dollar. At first 3-months' euro-dollars were quoted at 11 13/16%, 11/16% higher than on Friday. They later softened to 11 9/16% but, despite a fall in the cost of cover to 5 13/16%, the covered margin against London widened to 5/16%.

As often when the dollar is better, sterling improved on the Continent, to 4.11½ against the mark and to 3.81½ and 9.59½ against the Swiss and French francs. Despite Friday's money figures and the general hardening of market interest rates, Morgan Guaranty became the first major US bank to reduce prime rate to 16%. After a firm beginning, the dollar faded over the day but recovered around the close to show net gains. The announcement of higher oil prices in Algeria and Libya had no noticeable effect. The mark closed at 1.8008 after 1.8062 early on and 1.7953 in mid-morning. The French franc (4.20) remained top of a relaxed EMS, 1½% above the lira (847.55). Intervention was minimal: the Dutch bought \$5 mn. and \$14 mn.-worth of marks, their mark cross-rate now being better than Dfl 1.10; the Swedes sold a mere \$7 mn. and the Norwegians bought \$15 mn. The Swiss franc (1.6717) kept in step with the mark; the SNB confined themselves to buying dollars on the swap. The Bank of Canada added \$95 mn. to reserves on Friday, but their dollar softened today. The yen was steady after Friday's political shock, closing at 229.05 in Tokyo and then at 228.60 in London.

Gold traded quietly for the main part of the day, fixing at \$515.10 and \$513½, but was sold down to \$506 or so late on.

Operations: Iraq	+ \$11
	<u>+ \$11</u>

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