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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 23rd May 1980

American prime rates again called the tune, bringing further lament for the dollar, particularly this afternoon when sterling danced on to a new 5-year high. The ERI rose to 74.3. The yen was again well wanted.

Although New York traded quietly and sterling edged up to 2.3305 at the close last night, the later announcement of Chemical's prime rate reduction to 15% boosted the pound to 2.3440 in the Far East. In London it opened at 2.3372 this morning, briefly saw 2.3405 and then traded very quietly down to a cent lower before recovering to 2.3350 at noon. After the Citibank prime reduction to 14½% (followed by Manufacturers Hanover) it attracted good buying, for professional and commercial account, up to 2.3452 and closed at 2.3445. With Eurodollars easing back to 9 9/16% and forward margins widening to the equivalent of 7 9/16% p.a. for three months, there is interest parity on a covered basis tonight.

In Europe, the pound surpassed yesterday morning's levels, closing at 4.17½ in Germany, 9.73 in France and 3.88½ in Switzerland. The dollar, lost up to ½%, receiving support in Germany - but only to the extent of \$50mn. - where it closed at 1.7812. EMS narrowed to 1 13/16% between the French (4.1502) and Italian (837.20) currencies. The Swiss franc improved to 1.6560, the National Bank swapping in \$415mn. Over \$30mn. was spent in defence of the Swedish krona. The yen, however, dominated today's activity as the Bank of Japan bought \$527mn. in Tokyo, where the rate closed at 222.30; in London the yen followed the trend and firmed up to 221.37.

Gold improved in New York on short covering and was helped today by a recovery in silver. Fixings were at \$510.50 and \$511.25; later it traded at \$513.

Operations:	Market	+	\$9 mn.
	Interest	+	7
	Government	-	8
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		+	\$8 mn.
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Overnight and	
Bank Holiday	<u>+ \$69mn.</u>

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