

FE440.07 - no need to card

SECRET

27. 5.80.

GPS

Copies to: DGPS
Mr. Loebnis
Mr. Sangster

FOREIGN EXCHANGE AND GOLD MARKETS
21st-27th May 1980

Oil prices and yet lower American interest rates provoked aggressive and widespread buying of pounds. At first sterling was singled out but the dollar then generally weakened, particularly on Friday and in the Far East on Monday. The ERI rose to 74.9 at noon today, the highest since the index was rebased. The highest rate since April 1975 - 2.3780 - was reached yesterday in the Far East. There was some reaction this morning but renewed demand pushed the rate as far as 2.3785. Eurodollars fell some 1½% to 9¼% and forward sterling reverted to a covered premium of about 5/16% p.a.

Declining interest rates and the Fed's apparent easing hit the dollar. Several big banks have now reduced primes to 14½%. Central bank support for the dollar was muted except in Japan and in New York last Friday. EMS was relaxed between the French and Italian currencies. The former was in some demand as were the Canadian dollar (post Quebec referendum) and yen (despite the political situation).

Gold tested \$500 but recovered this morning; it was generally quietly traded.

Main exchange rates

| <u>\$</u> | <u>20th May,</u> <u>(close)</u> | <u>27th May,</u> <u>(3 p.m.)</u> |
|-------------|------------------------------------|-------------------------------------|
| £ | 2.2913 | 2.3765 |
| DM | 1.8031 | 1.7595 |
| SF | 1.6807 | 1.6390 |
| FF | 4.2010 | 4.1040 |
| Yen | 226.47 | 219.15 |
| | | |
| <u>£</u> | | |
| DM | 4.13½ | 4.18½ |
| SF | 3.85½ | 3.89½ |
| FF | 9.62½ | 9.75 5/16 |
| £ effective | 73.3 | 74.9 |
| <u>Gold</u> | \$510 | \$514.75 |

20 20/5 0

Intervention abroad (main items)

| | | | |
|---------|---|-------|-------------------|
| Japan | + | 1,742 | |
| Canada | + | 142 | |
| USA | + | 415 | |
| Germany | + | 130 | } (to noon today) |
| France | + | 62 | |

EEA transactions

| | | | |
|--------------|---|-----|--------------|
| Operations | + | 144 | market + 158 |
| Forward book | + | 231 | |

The increase in the spot reserves in the month so far is \$268mn. after net public sector debt repayments of \$16mn.

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27th May 1980.

PAB/DAHB