

GIVE
L.R. FF440-07

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 13th June 1980

The 1% reduction in the Federal Reserve Discount Rate together with forecasts of yet lower US interest rates from a leading Wall Street analyst, combined to depress the dollar in New York yesterday and the Far East this morning. European markets, however, were relatively steady, partly on official support for the currency but also on fears of heavier forthcoming support. Sterling was idle and failed to keep pace with the European currencies. The ERI thus slipped to 73.6.

The pound was sold down to 2.3312 in New York yesterday but advanced, as the dollar weakened later, to close at 2.3445. This morning it opened at 2.3450, was bid up to 2.3490 on the early exchanges then relapsed to trade quietly through the morning around the opening level. The afternoon, too, was not active but some demand for deutschemark drove the pound down to 2.3395 before it recovered to close at 2.3425. Dollar deposits finished $\frac{1}{2}\%$ easier and forward margins widened in consequence, the three-months' to 7 15/16% p.a. discount. The adverse covered differential remained at $\frac{3}{8}\%$.

The pound lost $\frac{3}{8}\%$ in Germany (4.10 $\frac{1}{2}$), $\frac{1}{2}\%$ in France (9.57 $\frac{1}{2}$) and $\frac{3}{8}\%$ in Switzerland (3.77 $\frac{1}{2}$). Yesterday in New York, the Federal Reserve sold marks worth \$67mn. and Swiss francs worth \$22mn., while the Japanese bought \$38mn. and the Swiss took in \$22mn. This morning in Tokyo the Japanese absorbed \$426mn. (the yen closing there at 215.55 and in London at 216.17). This clearly reduced the required level of official support for the dollar in Europe, where the Swiss bought \$15mn., the Bundesbank \$28mn. and the Dutch \$50mn. The mark closed at 1.7537 and the Swiss franc 1.6127. The Italians allowed week-end pressure on the lira to impact partly on the rate and the EMS thus widened to 2 7/16% between the French franc and lira (829.25). Nonetheless the Bank of Italy sold \$44mn. in support.

Gold was naturally firmer, though the metal failed to make any further headway in European markets. Fixings were \$609.25 and \$608.40 and the latter session excited very heavy turnover.

Operations:	Market	+	\$1mn.
	Sundries	+	3
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		+	\$4mn.
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