

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 25th June 1980

A new sheen on the yellow metal was the only bright spot in yet another dull day's trading. The yen, which eased, was the only active currency. Dollar and pound were barely moved. Sterling's ERI was an unchanged 73.7 throughout.

The pound closed at 2.3357 in New York yesterday and opened this morning at 2.3358, which proved to be the high point of the day. Trading was, for the most part, peaceful and the range extremely narrow. Late in the morning some concerted selling from Switzerland pushed the pound down to 2.3315 but it recovered, almost as if by design, to close at 2.3350. Deposits, both dollar and sterling, were a touch firmer but forward margins moved little. Three-months' cover cost 7 $\frac{1}{2}$ % p.a. and sterling retained an intrinsic premium of $\frac{1}{2}$ %.

The pound was fractionally softer against the French (9.58 $\frac{1}{2}$) and German (4.13) currencies and a touch firmer against the Swiss (3.82 $\frac{1}{2}$). Against the dollar these closed at 4.1045, 1.7686 and 1.6367 respectively. The Swiss swapped in \$636mn. over the half-year end. Ministerial advocacy of the present exchange rate brought further market talk of a devaluation in Italy this weekend with estimates ranging as high as 21%. The Bank of Italy sold \$65mn. and allowed the lira (837.25) to slip to almost 3% from the French franc in EMS. Elsewhere the 1% reduction in Belgian Discount Rate (to 13%) had little impact. The yen closed at 216.95 in Tokyo but eased in London this afternoon to 218.05.

Gold gained ground in New York yesterday following announcement of a very large Federal budget deficit in May. This morning's European markets seemed not inclined to sustain the trend but demand emerged at the fixing, which set a level of \$617.50. A single professional seemed keen to move the market and he eventually provoked a further advance this afternoon. The second fixing was \$622.50 and the close around \$625.

Operations:	Market	+	\$7mn.
	Iraq	+	21
	Interest	+	16
	Iran	+	10
	IDA	+	8
	Sundries	+	5
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		+	\$67mn.
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