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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 26th June 1980

Sterling witnessed the now traditional Thursday see-saw around Minimum Lending Rate and finished on a strong note as a host of short positions were covered this afternoon. With monetary policy unchanged in Germany also, the dollar suffered somewhat in consequence. Sterling's ERI rose to 73.9.

The pound closed a little better at 2.3385 in New York yesterday. This morning, however, with the dollar only modestly firmer, sterling was marked down in Eastern markets and opened here at 2.3315. Persistent small sellers from the Middle East and later from Switzerland kept sterling depressed but natural support was found elsewhere and the rate dipped no lower than 2.2280. As usual, any expectations of a change in MLR evaporated well before the announcement and the pound was trading around 2.3350 by early afternoon. The announcement itself brought added impetus to the upward movement and sterling was through 2.34 by the time US markets were fully under way. Continued short-covering then carried the pound up to 2.3490 before a late reaction brought a close at 2.3425. Forward margins were little changed. Three-months' cover cost 7 5/16% p.a. and sterling's intrinsic premium was 3/16%.

The pound gained 1/8% in Germany (4.13 1/2) and 1/8% in France (9.61) but lost 1/8% in Switzerland (3.81 1/2) where end half-year pressures forced the Swiss franc up to 1.6285 to the dollar. The Swiss swapped in another \$500mn. for a week. The deutschemark firmed gradually over the day to 1.7650, buoyed by the absence of any change in Bundesbank policy. In EMS the spread between the French franc (4.1025) and lira (838.95) widened to 3 1/2% and the Italians fired off \$366mn. in defence of their currency as the approach of the weekend brought mounting pressure. The yen closed at 218.15 in Tokyo and 217.35 in London.

After some profit-taking in New York yesterday, gold regained yesterday's best levels in European markets today, helped by the relative weakness of the dollar. Fixings were \$623.25 and \$624.50.

Operations:	Market	+ \$19mn.
	Interest	+ 37
	Iran	+ 30
	P.S.B.G'teed:	+ 16
British Nuclear Fuels +9		
Lancashire C.C. +7		
	I.D.A.	+ 15
	India	+ 12
	Government	- 24
	Sundries	- 1
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		+ \$104mn.
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	Overnight	+ 7mn.
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*JGH*  
26th June 1980.

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