

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 30th June 1980

Sterling met strong demand at times this morning with the dollar rather depressed by the large increase in the United States' May trade deficit. Somewhat firmer Eurodollar deposits - occasioned by a substantial increment to the US monetary aggregates - brought some respite for the dollar and the pound closed below its best. The ERI rose to 74.4.

The pound closed at 2.3552 on Friday in New York, where the dollar weakened generally after the announcement of a \$4bn. trade deficit for May. This morning, with dollar deposits opening  $\frac{1}{8}$  -  $\frac{1}{2}$  better bid, the dollar began a little firmer but then went into a gradual decline. Sterling mirrored this at first, opening at 2.3532, touching 2.3525 on the early exchanges, then advancing to find a level around 2.3550. Later, some keen demand was evinced from Swiss and German professionals and the pound was swept up to around 2.36, touching 2.3635 at one stage following additional commercial interest from Paris. This afternoon, Americans tended to cover short dollar positions. Sterling traded back around or below 2.36 until late in the day when it eased further before the recuperant dollar to 2.3565 and closed at 2.3570. Sterling deposits, too, were firmer but did not match the rise in Eurodollar rates and forward margins narrowed in consequence, the three-months' to 7  $\frac{1}{16}$ % p.a. discount. This left the covered differential unchanged at  $\frac{1}{8}$ % in London's favour.

The pound gained a further  $\frac{1}{8}$ % in Germany (4.15%) and France (9.64%) and almost  $\frac{1}{8}$ % in Switzerland (3.84%). The Swiss franc was unchanged on the dollar at 1.6295 but the deutschemark was a fraction better at 1.7635. The Federal Reserve bought \$26mn. against marks on Friday and the Bundesbank took in \$12mn. at the fixing today. The introduction of new credit measures in Italy brought some respite for the lira (838.50) and the distance from the French franc (4.0928) was narrowed a little to 3  $\frac{7}{16}$ %. Elsewhere the Danes added \$29mn. to their reserves but the Swedes spent \$53mn. Given the current political difficulties, the yen weakened progressively to 218.15 in Tokyo and 219.82 in London.

Gold advanced strongly in New York on Friday and again this morning in London where the fixing set a level of \$662.50. US markets, however, took profit this afternoon. The fixing was \$653.50 and the closing level around \$650.

Operations:	Market	+	\$1mn.
	Government	+	15
	India	+	12
	Egypt	+	5
	Jamaica	-	5
	Sundries	+	6
		+	\$34mn.

The result for June is a reserve decrease of \$112mn. to a level of \$28,172mn. after debt repayments (net) of \$115mn. The overbought forward position was increased by \$346mn. to \$1,956mn.

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