



THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 8th July 1980

Largely reflecting the dollar's fortunes, sterling was quite firm this morning, a little less so this afternoon. The dollar itself picked up sharply after the close, following a surprise change in tactics by the Federal Reserve in the Open Market. Sterling's ERI closed unchanged at 74.4, after 74.6 this morning.

The pound closed well bid at 2.3825 in New York yesterday. This morning it began at 2.3785 and, as the dollar resumed its decline, traded up to 2.3850 before profits were taken and a trading level was established around 2.38. The dollar improved a little this afternoon and sterling fell back. The Banking Statistics had no marked impact but the pound was offered down to 2.3710 before recovering to close at 2.3765. Three-months' cover cost 6 7/16% p.a. and sterling's intrinsic premium was 3/8%.

The pound was unchanged in Germany (4.12 1/4) a touch softer in France (9.57 1/2) and a touch firmer in Switzerland (3.77 1/4). Yesterday the Federal Reserve bought \$143mn. for marks and \$55mn. for Swiss francs, while the Swiss bought a further \$56mn. in New York. Today the Swiss took in \$45mn. but the Bundesbank only \$7mn. The deutschemark was thus a little firmer at 1.7367 while the Swiss franc was unchanged at 1.5870. After the close the Federal Reserve drained reserves in the Open Market with Federal Funds at 8 1/2%. This apparent policy tightening - at a time when many were looking for some easing after the F.O.M.C. meeting later this week - boosted the dollar since it was evidently occasioned with an eye to the exchanges. The mark eased to 1.7407 and the Swiss franc to 1.5920. EMS narrowed to 3 13/16% between the French (4.0290) and Italian (828.60) currencies. The Dutch bought \$5mn. and the Danes \$34mn. The yen closed at 218.35 in Tokyo and 218.80 in London.

Gold was very firm following the escalation of fighting in Afghanistan and the renewed weakness of the dollar. Fixings were \$688.75 and \$687.50 but resistance was felt more than once around \$690.

Operations:	Market	+	\$3mn.
	India	+	12
	Australia	+	5
	Interest	+	5
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		+	\$25mn.
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