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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 10th July 1980

A very dull day on the exchanges where the dollar was generally a little firmer by the end of the day. Sterling's ERI closed unchanged at 74.4, after 74.3 this morning.

The pound closed quietly at 2.3750 in New York yesterday and, after opening this morning at 2.3755, traded through the morning within a $\frac{1}{2}$ cent range below this level. With M.L.R. unchanged, sterling was bid up to 2.3770. However, as the dollar strengthened this afternoon, sterling fell back to 2.3715 before closing at 2.3742. Forward margins closed a little wider, the three months' at 6 7/16% p.a. With eurodollar and sterling deposits little changed, the covered differential fell to 1/16% in London's favour.

The pound was a touch firmer in Paris (9.59 $\frac{1}{2}$) and Frankfurt (4.13 $\frac{1}{2}$) but gained $\frac{1}{2}$ % in Zurich (3.79 $\frac{1}{2}$). The dollar's later firmness, which reflected continuing nervousness in New York over the outcome of yesterday's F.O.M.C. meeting, was most marked in Switzerland where the franc eased to 1.5985 and 0.91 $\frac{1}{2}$ to the deutschemark (1.74). EMS contracted to 3 $\frac{1}{2}$ % in width between the French franc (4.0425) and lira (828 $\frac{1}{2}$) but the Italians nonetheless sold \$72 mn. The Danes, however, bought \$14 mn. and the Irish \$15 mn. Pressure continued on the Swedish krona and the authorities there spent \$99 mn. The yen closed at 217.90 in Tokyo and 217.35 in London.

As yesterday, gold was steady this morning and the fixing, at \$665, was a little higher than yesterday's closing level. This afternoon, however, selling came out of New York again and \$650 was tested before the fixing set a level of \$656.50. By the close, the metal had recovered to \$660.

Operations:	Market	- \$ 8 mn.
	British Air	+ 50
	(PSB G'teed)	
	Iraq	+ 48
	Kenya	+ 12
	Iran	+ 10
	Sundries	+ 2
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		+ \$114 mn.
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