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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 25th July 1980

A quiet end to the week saw the dollar firmer in the wake of yesterday's varied Federal Reserve activity. Sterling eased in line with European currencies but, with the yen still very weak, the ERI closed at a record 75.3.

The pound closed at 2.3933 in New York yesterday and opened at 2.3961 this morning. As the dollar strengthened, so sterling eased to 2.3922 but a burst of activity in late morning saw business up to 2.3981. New York returned to bid strongly for dollars and sterling quickly declined to 2.3915. Thereafter, trading was quiet and the close came at 2.3927. After the close, however, the pound was sold down to 2.3882 from New York and Chicago. Sterling and dollar deposits were a little firmer but forward margins widened, the three-months' to  $6\frac{1}{8}\%$  p.a. discount. Sterling's intrinsic premium thus fell to  $1/16\%$ .

Sterling closed a touch better in Switzerland (3.82 $\frac{1}{2}$ ) and Germany (4.16) but was a little lower in France (9.65 $\frac{1}{2}$ ). The dollar improved in these centres to 1.5980, 1.7388 and 4.0347 respectively, buoyed both by the Federal Reserve's outright sales of Treasury Bills yesterday and by their purchase of \$87mn. on the exchanges against marks (\$48mn.), French francs (\$34mn.) and Swiss francs (\$5mn). EMS narrowed to 3 5/16% between the French franc and lira (825.60) and the Italians recouped \$175mn. Elsewhere the Dutch bought \$5mn., and the Norwegians \$43mn. (outright forward) but the Swedes sold \$44mn. The yen closed at 224.90 in Tokyo, where the Bank of Japan sold \$5mn., and weakened further to 225.60 in London.

Gold advanced further in the Far East this morning, then passed the day testing the \$650 level. This was frequently surpassed but the metal showed little inclination to harden very much further. Fixings were \$652.50 and \$651.75.

Operations:	Bangladesh	-	\$24mn.
	IDA	+	11
	Interest	+	5
	Sundries	-	2
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			- \$10mn.
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	Overnight	+	\$7mn.
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*JGH* 25th July 1980.

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