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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 28th July 1980

The exchanges were without marked feature today. The dollar recovered ground - having weakened in New York late Friday following the 1% reduction in US Discount Rate to 10% - and sterling eased in concert with major European currencies. The ERI fell to 75.2.

The pound closed much firmer at 2.3980 in New York on Friday. This morning it opened at 2.3947 and, having touched 2.3965 on the early exchanges, traded quietly through the morning a little below opening levels. The dollar's improvement owed something to the weakness of gold but rather more, perhaps, to the realisation that the reduction in the US Discount Rate did not signal an easing of policy, giving both the substantial expansion in the aggregates and the relative tightness of Federal funds. New York's return reinforced this view and accelerated the dollar's advances. Sterling was marked progressively lower and touched 2.3853 before closing at 2.3870. Euro-dollar and sterling deposits were somewhat firmer, the latter rather more so. However, the cost of the three-months' cover fell slightly to 6 3/16% p.a. and the covered differential rose to 5/16% in London's favour.

The pound was unchanged in Germany (4.16) and France (9.65 $\frac{1}{2}$) but $\frac{1}{2}$ % better in Switzerland (3.83 $\frac{3}{8}$). The dollar improved in these centres to 1.7428, 4.0430 and 1.6063 respectively. EMS narrowed to 3 $\frac{3}{8}$ % between the French and Italian (825.87) currencies but there was no intervention. Elsewhere the Swedes spent \$69mn. The yen weakened further to 226.75 in Tokyo and 227.30 in London. The Japanese sold \$30mn. in New York on Friday and \$11mn. in Tokyo this morning.

Gold traded up to \$657 in Hong Kong on Saturday but fell \$20 this morning following the death of the Shah. European markets were uncertain but the metal recovered some of the lost ground. Fixings were \$643.25 and \$643.50.

Operations:	Market	- \$5mn.
	Iran	+ 20
	National Water Council (PSB G'teed)	+ 14
	Interest	+ 10
	Ghana	- 6
	Sundries	- 3
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		+\$30mn.
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LATHS for