

1980/4

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 23rd January 1980

Good demand carried sterling's effective index to 72.4 on Monday morning, the highest since early August, before profit-taking brought it back to 71.8 for a gain on the week of 0.1. The dollar enjoyed mixed fortunes.

Profit-taking and commercial selling drove sterling down to 2.2535 on Thursday morning, over 2½ cents below the previous London close. However, good buying interest, encouraged by the money supply figures and then by retail prices, pushed sterling back to 2.2815 when London closed for the weekend. On Monday buyers returned refreshed; the rate touched 2.2950 before profit-taking and a generally stronger dollar brought a retreat. Sterling traded down to 2.2645 at one time on Wednesday before closing at 2.2785. Early gains were made against the main Continental currencies - the mark cross-rate for example touching 3.95½ - but sterling closed only slightly stronger in Germany, at 3.93 5/8, and in Paris, at 9.21 5/8. Some of the later profit-taking appeared to come from Continental banks who had bought pounds against marks when the rate was in the upper 3.80s. Against the ECU sterling went to 1.5791, a premium of 2 3/8% on the notional central rate. Shortages in the money market raised 3-months interbank sterling to 17 7/8% on Monday. The rate closed the week 3/8% higher at 17½%, but higher euro-dollar rates and a rise in the cost of forward cover (to 2 13/16%) narrowed the covered differential in London's favour to 1/8%.

After a quiet start, the dollar strengthened after the weekend, but then reacted to close some way from the best. An increase in a leading prime rate, Mr. Volcker's remarks about continued monetary restraint, the President's intentions on fiscal policy, and gold's precipitous fall, probably all helped the dollar; signs of continuing strength in the economy and talk of troop deployments in the Middle East may have worked the other way. The Fed. bought \$80 mn. against marks. The Bundesbank, on the other hand, sold no less than \$420 mn. to cover capital exports. The mark eased a touch to 1.7275. Another DM.2 bn. of Carter bonds were issued. The French franc (¼% softer at 4.0450) remained atop the EMS, 2% above the Belgian crown (28.09 and 71 divergent). The French bought \$30 mn; the Belgians, still in political trouble, sold \$100 mn. and \$30 mn.-worth of French currency. The Irish (their punt at 2.1370, 6½% discount on sterling) bought back £7 mn; the Dutch bought \$60 mn.-worth of marks; pressure on the Danish crown continued, however, forcing the central bank to sell another \$260 mn. Outside the EMS, the Swedish crown also remained under strain, compelling \$140 mn. of support despite a 1% increase in bank rate. The Swiss franc eased to 1.6035; the SNB surprisingly sold \$40 mn.-worth of Dutch guilders. They also bought \$1 bn. on the swap. Better trade figures gave the yen a leg up; it improved 3/8% to 236.57 after \$20 mn. of support. The Bank of Canada added another \$70 mn. to reserves.

Gold underwent extraordinary convulsions. Continuing trouble in the Middle and Near East drove the price up to a record \$850 at the fixing on Monday afternoon, after \$858 in earlier trading. The price was already well down on Tuesday when the New York market announced severe restrictions on trading in silver futures and higher margins against gold and silver contracts; gold then plummeted, the price falling no less than \$260 between the record fix and an early trading price in London on Wednesday. Restrictions on silver subsequently imposed in the Chicago market no doubt contributed. The price rose later on Wednesday to \$695 at the afternoon fix, a net fall of \$65 on the week.

24th January 1980.

PAR

B.

J.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>17th January</u>		<u>24th January</u>
<u>2.2575</u>		<u>2.2792</u>
	£/\$	
<u>71.2</u>	Effective exchange rate index	<u>72.0</u>
<u>2 11/16% p.a. disc.</u>	Forward 3-months	<u>3 1/16% p.a. disc.</u>
<u>13 15/16%</u>	Euro-\$ 3-months	<u>14 3/8%</u>
<u>3/16% pre.</u>	I.B.Comparison	<u>1/8% disc.</u>
<u>1.7235</u>	\$/DM	<u>1.7298</u>
<u>3.89 1/16</u>	£/DM	<u>3.94 1/4</u>
<u>9.11 7/8</u>	£/FF	<u>9.23</u>
<u>238.80</u>	\$/Yen	<u>238.60</u>
<u>\$725</u>	Gold	<u>\$710</u>
<u>1.5877</u>	\$/S.Fc.	<u>1.6054</u>
<u>3.58 3/8</u>	£/S.Fc.	<u>3.65 7/8</u>