

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 12th March 1980

Interest rates pushed the dollar yet higher, despite heavy official sales especially by the Bundesbank. Sterling weakened at first but later met good demand, closing  $\frac{1}{8}$ % higher in effective terms at 72.5 after 71.8.

Sterling opened on Thursday some  $\frac{1}{8}$  cent below the previous London close of 2.2445, and promptly met selling which, after a pause for profit-taking, drove the rate down to 2.2152 during the afternoon. Interest-rate increases and the prospect of credit controls made the dollar strong, but the pound was losing ground elsewhere too. Sterling turned up sharply in late trading that day, and then followed a rather similar path on Friday, touching 2.2160 before closing for the weekend at a more comfortable 2.2225. Although the dollar was strong again, the pound had a quieter day on Monday, when the wholesale price figures were calmly received, and came into good commercial demand on Tuesday as the dollar topped out. The banking statistics encouraged demand, which returned on Wednesday to carry the rate as high as 2.2400 before the close was taken at 2.2357. The pound lost ground on the Continent before the weekend, but more than regained it subsequently, closing  $\frac{1}{8}$ % higher against the mark at 4.04, and at 9.45 $\frac{1}{2}$  and 3.86 $\frac{1}{2}$  in France and Switzerland. Against the ECU sterling went to 1.6146, a premium of 4 $\frac{1}{2}$ % on the notional central rate. Eurodollars reached unprecedented levels - 18 15/16% in the three months at one time on Friday - closing some  $\frac{1}{8}$ % higher at 18 $\frac{1}{2}$ %, after allowance for technical factors. Interbank sterling fell somewhat, but the emergence of a forward premium for sterling ( $\frac{1}{8}$ %) narrowed the covered differential against London to 5/16%.

Interest rates once again dominated the course of the dollar. Rumours circulated of a 2% or more increase in Fed discount rate, and many US banks raised prime rate another  $\frac{1}{8}$ % to 17 $\frac{1}{2}$ % (one going to 18%). Credit controls and budget cuts are also talked of. Money supply figures published on Friday showed a sharp drop. The dollar advanced in most centres, despite heavy official sales by the Germans, Japanese and Swiss, before ebbing on Tuesday afternoon and Wednesday. The Germans spent \$1.8 bn. as the mark weakened to 1.8147 on Tuesday. It closed a healthier 1.8070, 1.2% down on the week. Official concern appeared to advertise the prospective weakness of the current account. The Swiss franc traded at 1.7351, the weakest since last June, before recovering to 1.7290. The authorities went further to encourage capital inflows, and spent \$600 mn. in the market. The French franc (4.2272) and the guilder (1.9859) took turns to head the EMS, the former closing there 2% above the Belgian franc (29.35). Money market rates in France rose again. The Belgians sold their customary mixture of currencies to a total of \$340 mn. At times their franc was over its divergence threshold. The Danish crown (5.6347) was supported to the extent of \$80 mn. and the Irish pound with \$60 mn. \$750 mn. was spent to enable the yen to keep up appearances - it closed  $\frac{1}{8}$ % softer at 247.25. Price figures were poor; another increase in discount rate is rumoured. The Canadian dollar also went through a rough patch; the Bank of Canada on Tuesday announced that bank rate would be linked to the Treasury bill tender rate. The currency received \$410 mn. of support.

Gold crumbled to \$557 on Tuesday before fixing on Wednesday afternoon at \$585.70, a net fall of \$57.80 on the week.

12th March 1980

PAB

RATES, ETC.

10.15 a.m.

10.15 a.m.

6th March

13th March

2.2336

£/\$

2.2269

72.1

Effective exchange rate index

72.2

1 1/16% p.a. disc.

Forward 3-months

7/16% p.a. pre.

18 3/8%

Euro-\$ 3-months

18 3/8%

1 1/8% disc.

I.B.Comparison

3/8% disc.

1.7944

\$/DM

1.8099

4.00 1/2

£/DM

4.03

9.39 1/2

£/FF

9.42 1/4

247.57

\$/Yen

247.43

\$635.75

Gold

\$576.00

1.7136

\$/S.Fc.

1.7298

3.82 1/4

£/S.Fc.

3.85 1/4