

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 19th March 1980

In a week dominated by the US measures announced late on Friday, the dollar advanced in all main centres. Official sales were substantial if not as heavy as in earlier weeks. Sterling resisted the dollar's gains better than most currencies, falling only 0.3 in effective terms to 72.2 after 71.6 at midday on Monday.

Sterling's first price on Thursday morning, 2.2325, proved to be the highest of the week. The prospect of President Carter's package and monetary measures from the Fed soon brought demand for the dollar, and sterling receded, while faring better than most other currencies, until some profit-taking ahead of his statement carried sterling up to 2.2117 at the close on Friday. 2.1922 was the first rate on Monday, and sterling touched 2.1650 that afternoon. The trade figures were quite well received, however, and the dollar met some more profit-taking later on Monday; good commercial demand kept the pound fairly firm on Tuesday and Wednesday, and it reached 2.2012 on Wednesday morning before closing at 2.1910. Sterling gained on the Continent, before and (especially) after the weekend. At times the mark cross-rate topped 4.11; it closed $1\frac{1}{2}\%$ higher at 4.10 $\frac{1}{2}$. Against the Swiss and French francs, sterling rose to 3.87 $\frac{1}{2}$ and 9.57 $\frac{1}{2}$. The premium on the notional ECU central rate increased further to 5 $\frac{1}{2}\%$. Euro-dollar rates went higher again, to 19 15/16 at three months, before reacting to 19 1/16 $\frac{1}{2}$ after allowance for technical factors; the premium on forward sterling rose to 1 1/16 $\frac{1}{2}$, eliminating the covered differential against sterling.

The Budget cuts proposed by the Administration and various monetary measures taken by the Fed were the focal point of the week. US interest rates rose again, several leading banks increasing prime rate to 19%. The dollar strengthened everywhere. The Fed themselves sold \$120 mn. in the market, mostly against marks. The Bundesbank were much more restrained than earlier, selling \$340 mn. At its weakest, the mark was quoted at 1.8835; it closed 3.6% weaker at 1.8724. Restrictions on capital inflows were eased. The Belgian franc struggled in the EMS, which was occasionally fully stretched; it closed well off the bottom, however, at 30.29, and 64 divergent (after 80). The central bank sold a packet of currencies worth \$650 mn., chiefly French francs. They raised bank rate by 2% (to 14%) on Wednesday, and did their best to scotch devaluation talk. The French franc (4.3692) and the guilder (2.0524) competed for top place, the former closing there 1 13/16% above the Belgian currency. The Italians tightened credit controls. The Danes sold \$100 mn. and the Irish, \$50 mn, their pound falling to 1.9762. A further \$260 mn. was spent on the Swiss franc, which touched 1.7932 before closing at 1.7707. The mark and the French franc had not seen these levels for nine months and the Swiss franc, not since mid-1978. The yen was also supported, to the tune of \$150 mn. Discount rate was increased another $1\frac{1}{2}\%$ to 9%, and reserve requirements were raised. It proved the steadiest of the major currencies, weakening only $\frac{1}{2}\%$ against the dollar to 248.45. The Bank of Canada sold \$200 mn. net.

Panic selling of gold was seen before the weekend when the metal tested \$500. The price rebounded when the South African Finance Minister suggested that production could be withheld from the market if necessary; fell in the wake of the US measures, to \$460 in the Far East on Monday morning; and then recovered on short-covering to \$527 at the fix on Wednesday afternoon, a net fall of $58\frac{1}{2}$ in the period.

19th March 1980
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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>13th March</u>		<u>20th March</u>
<u>2.2269</u>	£/\$	<u>2.2020</u>
<u>72.2</u>	Effective exchange rate index	<u>72.5</u>
<u>7/16% p.a. pre.</u>	Forward 3-months	<u>5/16% p.a. pre.</u>
<u>18½%</u>	Euro-\$ 3-months	<u>18 9/16%</u>
<u>¾% disc.</u>	I.E. Comparison	<u>5/16% disc.</u>
<u>1.8099</u>	\$/DM	<u>1.8653</u>
<u>4.03</u>	£/DM	<u>4.10¼</u>
<u>9.42¼</u>	£/FF	<u>9.59</u>
<u>247.43</u>	\$/Yer.	<u>248.35</u>
<u>\$576.00</u>	Gold	<u>\$554.00</u>
<u>1.7298</u>	\$/S.Fc.	<u>1.7597</u>
<u>3.85¼</u>	£/S.Fc.	<u>3.87½</u>