

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 16th July 1980

Gold claimed the limelight this week, as the price fell by almost \$50 in volatile trading. By contrast, the exchanges continued stable, with the dollar firming a little over the week. As so often recently, sterling moved in sympathy with the dollar, the ERI rising by 0.1 to 74.5.

After a quiet night in New York, where it closed at 2.3750, sterling opened on Thursday in London at 2.3755 and traded less than  $\frac{1}{2}\%$  either of this level in featureless markets before the weekend. On Monday, against a rather stronger dollar, sterling remained firm and after touching 2.3778 was bid up to 2.38 that night in New York. Some commercial selling in the Far East took the rate down to 2.3685 in early business on Tuesday and with some banks taking up short positions in advance of the publication of the June trade figures, the rate dipped to 2.3680 in the afternoon only to recover swiftly after their release. Despite some nervousness on Wednesday afternoon about a further reduction in MLR, sterling closed the period firm at 2.3725, almost unchanged on the week. Sterling firmed a little against the major Continental currencies, gaining  $\frac{1}{2}\%$  against the Swiss franc (3.80 $\frac{1}{2}$ ) and  $\frac{1}{2}\%$  against the deutschemark (4.13 $\frac{1}{2}$ ) and the French franc (9.60 $\frac{1}{2}$ ). Against the ECU, sterling went to 1.6449, a premium of 6  $\frac{5}{16}\%$  on the notional central rate. Euro-dollar rates were firmer over the week as a whole, three-months' deposits closing at 9 $\frac{1}{2}\%$  after allowance for technical factors. The cost of cover fell to 5  $\frac{1}{16}\%$  and with inter-bank rates unchanged at 15 $\frac{1}{2}\%$ , the covered differential in favour of sterling widened to 5  $\frac{1}{16}\%$ .

The absence of any further easing by the Fed after last Wednesday's meeting of the Federal Open Market Committee, led on Thursday and Friday morning to some hasty covering of short dollar positions taken out in anticipation of a further cut in the discount rate. Although the  $\frac{1}{2}\%$  reduction in Citibank's prime to 11 $\frac{1}{2}\%$  on Friday afternoon caused some hesitation, the dollar continued to improve after the weekend as the gold price crashed. There was, however, a reversal on Wednesday at the New York opening when, following the further fall in US industrial production in June and a large selling order out of Germany, the dollar fell back, finishing well below its better levels. The Fed bought \$102mn. against marks and the mark eased to 1.7430. The French franc (4.0485) remained at the top of the EMS, 3 $\frac{3}{8}\%$  above the lira (831), the Bank of Italy recouping \$113mn. The Danes bought \$25mn. Elsewhere, the Swiss franc (1.6030) fell to 0.92 against the mark. The yen, however, was little changed closing at 218.70. The Swedish crown received only \$160mn. in support, the Norwegians bought \$26mn. and the Canadians sold \$152mn. net.

Gold was a very active market. Before the weekend, although the \$650 level was tested on Thursday, the metal was basically fairly firm, fixing at \$670 on Friday afternoon. On Monday, however, rumours in the Far East that the US Treasury was about to resume gold sales pushed the price back, and with selling out of Switzerland, the Middle East and New York, it fell lower. Once through the \$650 barrier the price dropped quickly on panic selling in a frightened market, bottoming around \$604 early on Wednesday morning. Although the price subsequently recovered to fix at \$624 $\frac{1}{2}$  on Wednesday afternoon, the market remained extremely nervous.

16th July 1980.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
10th July		17th July
2.3730	£/\$	2.3736
74.3	Effective exchange rate index	74.4
6 $\frac{3}{8}$ % p.a. disc.	Forward 3-months	6 $\frac{3}{16}$ % p.a. disc.
9 $\frac{1}{4}$ %	Euro-\$ 3-months	9 $\frac{3}{16}$ %
$\frac{1}{8}$ % pre.	I.B.Comparison	$\frac{1}{4}$ % pre.
1.7373	\$/DM	1.7370
4.12 $\frac{1}{2}$	£/DM	4.12 $\frac{1}{2}$
9.56 $\frac{3}{8}$	£/FF	9.57 $\frac{1}{8}$
217.75	\$/Yen	218.50
\$665	Gold	\$630
1.5900	\$/S.Fc.	1.5975
3.77 $\frac{1}{2}$	£/S.Fc.	3.79 $\frac{1}{4}$