

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 23rd July 1980

In active, but basically stable markets, exchange rates moved mainly in response to changes in interest rate considerations. The dollar weakened following further prime rate reductions. Sterling met strong demand from all quarters and touched a five year high against the dollar. The ERI reached record levels, rising 0.5 to 75.0, after 75.1 on Wednesday morning.

Although the pound moved fairly narrowly against the dollar throughout most of the week there was an active two-way market in sterling and large orders in both directions were absorbed comfortably. The usual pre-MLR anxiety was on a much reduced scale this week and, helped by the encouraging RPI and the unemployment figures, sterling was bought on a sizeable scale after the weekend for investment purposes. Having closed the previous night in New York at 2.3785, sterling opened in London on Thursday at 2.3766. The rate eased during the morning, falling to 2.3713 in front of the MLR announcement, but recovered immediately afterwards and held firm against a strengthening dollar to close at 2.3735 on Friday evening. After the weekend some early nervousness was rapidly dispelled and, helped by strong demand from Europe and the Middle East, the rate rose steadily. As the dollar fell back, sterling went in late business on Tuesday to 2.3910, the highest level for over five years. Sterling ended the period firm at 2.3846. The pound gained a little ground on the Continent, rising by  $\frac{1}{4}\%$  against the Swiss and French francs to 3.81 $\frac{1}{2}$  and 9.62 $\frac{1}{4}$  respectively, and by  $\frac{1}{8}\%$  against the deutschemark to 4.14 $\frac{1}{2}$ . Against the ECU sterling went to 1.6482, a premium of 6 $\frac{1}{2}\%$  on the notional central rate. Euro-dollar rates fell by  $\frac{1}{4}\%$  over the week, three-months' deposits closing at 9 $\frac{1}{4}\%$ , after allowance for technical factors. With the cost of cover rising to 6  $\frac{3}{16}\%$ , the covered differential in favour of sterling narrowed to  $\frac{1}{8}\%$ .

Lower Euro-dollar rates and a move by some major banks, led by Morgan Guaranty, to an 11% prime rate, caused the dollar to weaken in all centres, except Tokyo. However, by the close the dollar was above its worst levels as statements by Chairman Volcker and Fed action in the US domestic market indicated that no early relaxation of monetary policy was likely. No support was provided by the Fed and the mark strengthened to 1.7397, the Bundesbank selling \$90mn. in cover of capital exports. EMS was relaxed, the French franc (4.0380) remaining at the top except briefly on Friday when it was replaced by the punt (2.1562), with the French buying \$20mn. and the Irish \$13mr. The Lira (827.25) was only 3 $\frac{1}{4}\%$  adrift and the Bank of Italy were able to purchase \$300mn. Although the Dutch reduced both their discount and Lombard rates by  $\frac{1}{4}\%$ , the guilder (1.90) remained firm. The Danes bought \$16mn. net. Elsewhere, the main focus of interest was the yen (223.80) which fell by 2 $\frac{1}{2}\%$  following a government statement that the discount rate would shortly be reduced by 1%. The Swiss franc (1.5998) was stable, remaining at 0.92 against the mark. The Swedish crown received only \$50mn. in support, the Canadians sold \$12mn. net and the Norwegians bought \$86mn.

Gold continued active and volatile. The price fell sharply on Friday when the \$600 level was almost tested, the metal fixing at \$606 in the afternoon. After the weekend there was some buying interest and the price rose to touch \$638 on Wednesday as short positions were covered, helped by rumours that the Russian Embassy in Tehran had been occupied. The final fixing was at \$631 $\frac{1}{4}$ , a rise of \$7 over the week.

23rd July 1980.

RATES, ETC.

10.15 a.m.

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<u>17th July</u>		<u>24th July</u>
<u>2.3736</u>	£/\$	<u>2.3822</u>
<u>74.4</u>	Effective exchange rate index	<u>74.9</u>
<u>6 3/16% p.a. disc.</u>	Forward 3-months	<u>6 1/16% p.a. disc.</u>
<u>9 3/16%</u>	Euro-\$ 3-months	<u>9 1/8%</u>
<u>1/8% pre.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>1.7370</u>	\$/DM	<u>1.7382</u>
<u>4.12 1/4</u>	£/DM	<u>4.14 1/8</u>
<u>9.57 3/8</u>	£/FF	<u>9.61 1/2</u>
<u>218.50</u>	\$/Yen	<u>223.70</u>
<u>\$630</u>	Gold	<u>\$636</u>
<u>1.5975</u>	\$/S.Fc.	<u>1.5980</u>
<u>3.79 1/4</u>	£/S.Fc.	<u>3.80 5/8</u>