

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 30th July 1980

Sterling was very strong before the weekend in the wake of an unchanged Minimum Lending Rate and the ERI set a record level of 75.3. Since then the dollar has staged a sharp, technical recovery and sterling has fallen back, though remaining relatively firm against the European currencies. The ERI finished the week slightly lower at 74.8.

The pound began the period at 2.3807 and traded quietly until the announcement of an unchanged MLR. This took sterling sharply higher and, with New York bidding actively for pounds, the rate advanced to 2.3995. The historic 2.40 level, however, proved a psychological barrier and, as the dollar recovered on Friday, sterling eased back. The 1% reduction in the US discount rate (to 10%) late on Friday caused a sharp reverse for the dollar and sterling traded back up to 2.3980 in New York that afternoon. Since Monday, however, the dollar has enjoyed a strong technical rally on the realisation that the Federal Reserve are not easing monetary policy. The pound was marked back progressively and touched 2.3580 on Wednesday afternoon before finishing the week at 2.3593. The pound made considerable gains on the Continent, advancing by $1\frac{1}{2}\%$ against the Swiss franc to 3.86 $\frac{1}{2}$, $\frac{1}{2}\%$ against the French franc to 9.67 $\frac{1}{2}$ and by $\frac{1}{2}\%$ against the deutschemark to 4.17 $\frac{1}{2}$. Against the ECU sterling finished at 1.6539, a premium of 6 13/16% on the notional central rate. Euro-dollar rates were around $\frac{1}{2}\%$ firmer. The cost of three-months' cover fell to 5 15/16% p.a. and the covered differential remained at $\frac{1}{2}\%$ in London's favour.

Further reductions in US banks' prime rates - to 10 $\frac{1}{2}\%$ in some cases - made for an easier dollar but the Federal Reserve's open market tactics, both in selling outright Treasury Bills and in allowing Federal funds to rise above 9%, removed any doubt over policy intentions and sparked the dollar's strong recovery. The Federal Reserve bought around \$75mn. (net) over the week but the Bundesbank sold \$85mn., some half of which was in cover of capital exports. The deutschemark eased to 1.7709 and the Swiss franc to 1.6372. The EMS narrowed substantially to 2 11/16% between the French franc (4.1007) and lira (834.50). The Italians recouped a further \$620mn. The French bought \$175mn. of deutschemarks, while the Dutch took in \$25mn. and the Danes \$30mn. Elsewhere, the Norwegians bought a further \$80mn. (forward) but the Swedes suffered a loss of around \$125mn. The dispute with the Province of Alberta over the price of oil scotched the Canadian dollar and the authorities spent \$230mn. in support. The yen remained soft and declined to 226.25, provoking sales of nearly \$50mn. by the Japanese.

Gold was firm for much of the week, though the market showed little inclination to take the metal much beyond \$650. On Wednesday, however, the strength of the dollar took its toll and the price plunged to \$629 at the final fixing and \$616 later in New York.

Jem 30th July 1980,

JGH.

RATES, ETC.

10.15 a.m.		10.15 a.m.
24th July		30th July
2.3822	£/\$	2.3370
74.9	Effective exchange rate index	74.5
6 1/16% p.a. disc.	Forward 3-months	5 7/8% p.a. disc.
9 1/8%	Euro-\$ 3-months	9 15/16%
5/16% pre.	I.B.Comparison	3/16% disc.
1.7382	\$/DM	1.7844
4.14 1/8	£/DM	4.17
9.61 1/2	£/FF	9.65 1/4
223.70	\$/Yen	227.42
\$636	Gold	\$619
1.5980	\$/S.Fc.	1.6500
3.80 3/8	£/S.Fc.	3.85 1/8