

J/S

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 20th August 1980

Markets were quiet again, with interest rates continuing to dictate movements in exchange rates. The dollar improved sharply as US domestic rates moved up. Sterling initially held very firm, touching a new four-year high against the deutschemark on Monday, but then encountered some modest selling. The ERI was unchanged at 75.5, after equalling the record 75.7 either side of the weekend.

Having closed the previous night in New York at 2.3780, sterling opened in London at 2.3765 on Thursday morning. In somewhat holiday-affected markets the rate held firm before the weekend against an improving dollar, helped by some modest demand from Europe. Late on Friday, some buying from the Middle East took the pound to 2.3825 in a thin market. After the weekend, with the dollar much stronger, following the release of the US money supply figures, sterling opened at 2.3656 and firmed gradually. The good July trade figures appeared to have little impact. However, some selling by the IMM in Chicago on Monday night took the rate back to 2.3585 at the New York close and a large commercial order to sell sterling on Tuesday prevented the pound regaining its highest levels; it ended the period at 2.3670. Sterling gained a little ground against the continental currencies, rising by $\frac{1}{2}\%$ against the deutschemark to 4.25 $\frac{1}{2}$ (after 4.26 $\frac{1}{2}$ on Monday), by $\frac{3}{4}\%$ against the Swiss franc (3.92 $\frac{1}{2}$) and by $\frac{1}{2}\%$ against the French franc (9.84 $\frac{1}{2}$). Against the ECU sterling went to 1.6815, a premium of 8 $\frac{1}{2}\%$ on the notional central rate. With three-month Euro-dollars rising by $\frac{1}{2}\%$ to 10 $\frac{1}{2}\%$, the cost of cover fell to 5 9/16% and there was a covered differential in favour of sterling of $\frac{1}{2}\%$.

Sharply higher Euro-dollar rates, which followed the record increase in the US money supply announced on Friday, and the feeling that the Fed's next move might be to lighten, rather than ease, monetary policy, caused the dollar to strengthen in all centres. Chase increased their prime by $\frac{1}{2}\%$ to 11 $\frac{1}{2}\%$ on Tuesday and other banks were expected to follow suit. The Fed sold \$110mn. against deutschemarks and the mark fell to 1.7973, the Bundesbank selling \$21mn. EMS widened to 3 $\frac{1}{2}\%$, after 3 7/16% on Thursday when the lira (850.70) came under pressure on fears of devaluation. The Bank of Italy sold \$200mn. in support. The French, Irish and Dutch contested the top of the arrangement, with the French franc (4.1580) in the lead at the close. The Irish bought \$40mn., the Dutch \$25mn. and the Belgians sold \$59mn. Elsewhere, the yen firmed on Tuesday when the discount rate was cut by only $\frac{1}{2}\%$ (against an anticipated 1%) and ended the week only a little lower at 224.19. The Swiss franc fell to 1.6575 and the Swedish crown received a further \$150mn. by way of support. The Norwegians bought \$250mn. and the Canadians sold \$60mn. net.

Gold was mostly fairly quiet although the price moved abruptly at times as various rumours swept the market. The first fixing was at \$623 but the price fell on Monday, to fix at \$609 $\frac{1}{2}$ in the morning, following reports that the US Treasury was to resume gold auctions. On Wednesday, reports that the Russians had invaded Poland sparked off strong demand from Switzerland and the US and the price fixed at \$634 $\frac{1}{2}$ in the afternoon, for a rise of \$19 $\frac{1}{2}$ on the week.

20th August 1980.

TRS

JMS

RATES, ETC.

10.15 a.m.

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<u>14th August</u>		<u>21st August</u>
<u>2.3762</u>	£/\$	<u>2.3670</u>
<u>75.5</u>	Effective exchange rate index	<u>75.7</u>
<u>5 $\frac{7}{8}$% p.a. disc.</u>	Forward 3-months	<u>5 $\frac{7}{8}$% p.a. disc.</u>
<u>10 7/16%</u>	Euro-\$ 3-months	<u>11%</u>
<u>3/16% pre.</u>	I.B. Comparison	<u>$\frac{1}{2}$% pre.</u>
<u>1.7816</u>	\$/DM	<u>1.8022</u>
<u>4.23 $\frac{3}{8}$</u>	£/DM	<u>4.26 $\frac{5}{8}$</u>
<u>9.80 $\frac{1}{4}$</u>	£/FF	<u>9.87 $\frac{1}{4}$</u>
<u>223.90</u>	\$/Yen	<u>224.85</u>
<u>\$622</u>	Gold	<u>\$643</u>
<u>1.6405</u>	\$/S.Fc.	<u>1.6645</u>
<u>3.89 $\frac{1}{4}$</u>	£/S.Fc.	<u>3.94</u>