

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 17 September 1980

After months of domination by interest rate expectations, economic factors were also a major influence on exchange markets this week. The prospect of a national dock strike put pressure on sterling and the ERI fell 0.7 to 75.5. As US interest rates moved up further, the dollar was generally a little firmer.

The dock strike, together with the narrowing of the uncovered differential between UK and US interest rates and fears of a cut in MLR, caused sterling to weaken. Although periods of heavy pressure were fairly brief, rather few commercial buyers were again seen. Short-covering took sterling to 2.4082 on Wednesday night in New York and it opened at 2.4084 on Thursday morning in London. As expectations of an MLR reduction waned, further squaring of short positions took the pound to 2.4150 in the morning and the rate continued to strengthen after the no change announcement, rising to 2.4205 that night in New York. The best levels were not, however, held and the rate eased back to 2.4136 before the weekend. With widespread forecasts in the Sunday press of an early cut in MLR, sterling was sold at the outset on Monday, particularly from Europe, and the rate fell quickly, touching 2.3875 before recovering in the afternoon in anticipation of the good August trade figures. However, the threat of a dock strike provoked further heavy selling on Tuesday and the rate slipped to 2.3798 in early business but stabilised fairly quickly to trade quietly in the range 2.38-2.3975 for the remainder of the period. Sterling closed at 2.3897, a fall of 1 cent on the week. The pound lost a little ground on the continent as well, falling by $\frac{1}{8}\%$ against both the Deutschmark and French franc, to 4.25 $\frac{1}{2}$ and 9.89 $\frac{1}{2}$ respectively and by $\frac{1}{8}\%$ against the Swiss franc to 3.89 $\frac{1}{2}$. Eurodollar rates rose by $\frac{1}{8}\%$ on the week, 3 months deposits closing at 11 $\frac{1}{2}\%$, but with the cost of cover falling to 3 7/16% and little change in sterling interbank rates, there was a covered differential in favour of sterling of 7/16%.

Following the unexpected increase in the money supply on Friday, eurodollar rates rose and primes, led by Citibank, went $\frac{1}{8}\%$ higher, to 12 $\frac{1}{2}\%$. The dollar firmed in most centres, with the mark easing to 1.7806. EMS continued under little pressure with the florin (1.9368) at the top throughout ahead of the French franc (4.1410), the Dutch buying \$140 mn. The lira (847.25) was 3 $\frac{1}{8}\%$ adrift at the bottom, the Bank of Italy selling \$134 mn. in support. The Belgian franc (28.55) remained at the bottom of the 2 $\frac{1}{2}\%$ band. Elsewhere, the Japanese experienced large inflows as further reductions in interest rates were deemed unlikely. The yen gained 2 $\frac{1}{8}\%$ over the week closing at 211.65 after purchases of \$700 mn. by the Bank of Japan. The Swiss franc strengthened a little to 1.6290. Support for the crown by the Swedes continued, the Riksbank selling \$130 mn. and the Canadians sold \$100 mn. (net). The Norwegians, however, were able to buy a further \$200 mn.

Gold remained very active with the price reaching its highest level since the beginning of the year. After fixing at \$676.50 on Thursday morning, heavy buying of silver sparked off strong demand in the Far East on Friday and the price rose rapidly to touch \$697 before fixing at \$693.50. The failure to break the \$700 barrier provoked profit taking and the metal traded down to \$660 before ending at \$673, a fall of \$13 on the week.

17 September 1980.
T.R.S.

RATES, ETC.10.15 a.m.10.15 a.m.11 September18 September2.4115£/\$2.392576.2Effective exchange rate index 75.64 3/16% p.a. disc.Forward 3-months3½% p.a. disc11 11/16%Euro-\$ 3-months11 15/16%1/16% disc.I.B.Comparison7/16% pre.1.7762\$/DM1.78284.28½£/DM4.26½9.96½£/FF9.91½215.55\$/Yen212.55\$679Gold\$6721.6275\$/S.Fc.1.63153.92½£/S.Fc.3.90½