

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 24th September 1980

The conflict between Iran and Iraq made for a nervous and unsettled week in the markets. As fears about the security of oil supplies to Western Europe and Japan increased, the dollar firmed in all centres except London. Less affected by oil worries, sterling strengthened against the Continental currencies in particular, the ERI rising 0.8 to 76.3, after a record 77.3 at the opening on Tuesday.

Sterling closed in New York on Wednesday at 2.3915 and opened in London on Thursday at 2.3940. With the settlement in the docks dispute and an unchanged MLR already discounted, the pound eased during the morning until publication of the money supply figures provoked wide-spread selling. The rate fell to 2.3835 and, after touching 2.3822 early on Friday, remained around this level before the weekend. On Monday, with the fighting in the Middle East intensifying, sterling rose against a much stronger dollar and this movement was continued on Tuesday when, in early business, the pound went to 2.4220, just below the five-year \$/£ peak, and to new four-year highs of DM 4.40 and SF 4.02½ against the mark and Swiss franc respectively. At these levels, however, sellers appeared and the downward movement was given added impetus by a report that the US hostages in Iran had been released. The rate dropped to 2.3960 but later recovered to 2.4040 when the Iranian oil refinery at Abadan was reported ablaze. Thereafter the pound traded in the range 2.40-2.41 but tended to ease against a softening dollar, closing at 2.4017, a rise of 1½ cents on the week. Although ending well below its best levels, sterling made sizeable gains against the Continental currencies, rising by 1½% against the deutschemark to 4.31½, by 1½% against the Swiss franc to 3.95 and by 1½% against the French franc to 10.02½. Against the ECU sterling went to 1.7163, a premium of 10½% on the notional central rate. Euro-dollars rose by ¾% over the week, three-month deposits closing at 12½%, after adjustment. With the cost of cover narrowing to 3½% there was a covered differential in favour of sterling of 3/16%.

The Middle East war, together with a further ¼% rise in prime rates, to 12½%, against a background of falling interest rates in Europe (German Lombard rate and Dutch and Danish Bank Rate were all reduced) took the dollar briefly on Tuesday to its highest levels for five months, but it closed well below its peak. The Fed intervened to ease the pace of the advance, selling \$160mn. and the Germans sold \$140mn. The mark fell to 1.7960, after 1.8185. EMS was relaxed, the florin (1.9523) remaining at the top 3 11/16% above the lira (854.65), the Italians selling \$62mn. and the Dutch buying \$10mn. The French franc (4.1735) stayed close to the top of the band, with the Bank of France buying \$55mn.-worth of deutschemarks. Elsewhere, the yen was hit by fears over oil supplies and lost over 2%, to close at 215.40 (after 218½). The Swiss franc fell to 1.6450, the National Bank again intervening to ease liquidity pressures. With large domestic oil supplies, both the Canadian dollar and the Norwegian crown were very firm and their central banks were able to add \$100mn., and \$250mn. respectively to reserves. For the first time for several months, the Swedish crown received only nominal support.

Gold was in strong demand and the price volatile, fluctuating in response to the various rumours sweeping the market. The first fixing was at \$674 and although the price at first eased to \$672 it was bid up after the weekend, breaching \$700 in the Far East on Monday and fixing at \$720½ on Tuesday afternoon. Although some profit-taking then occurred, the price showed no inclination to fall below the \$700 level and it fixed at \$710½ on Wednesday afternoon for a rise of \$37 on the week.

24th September 1980.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>18th September</u>		<u>25th September</u>
<u>2.3925</u>	£/\$	<u>2.3997</u>
<u>75.6</u>	Effective exchange rate index	<u>76.4</u>
<u>3½% p.a. disc.</u>	Forward 3-months	<u>3 1/16% p.a. disc.</u>
<u>11 15/16%</u>	Euro-\$ 3-months	<u>12¼%</u>
<u>7/16% pre.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>1.7828</u>	\$/DM	<u>1.8006</u>
<u>4.26½</u>	£/DM	<u>4.32½</u>
<u>9.91¼</u>	£/FF	<u>10.03¾</u>
<u>212.55</u>	\$/Yen	<u>215.65</u>
<u>\$672</u>	Gold	<u>\$705</u>
<u>1.6315</u>	\$/S.Fc.	<u>1.6482</u>
<u>3.90¼</u>	£/S.Fc.	<u>3.95½</u>