

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 8th October 1980

Despite the war in the Middle East, markets were quiet and even featureless at times, comforted by OPEC undertakings to make good the shortfall in Iraqi oil supplies. As US interest rates appeared to have peaked, the dollar eased back in most centres. With the ERI unchanged at 75.8, sterling showed great stability but this concealed an active two-way market in which large orders were easily absorbed.

After closing in New York on Wednesday night at 2.3935, sterling opened in London on Thursday at 2.3898. In very quiet conditions the rate drifted down to touch 2.3837 on Thursday afternoon as the dollar strengthened after the increase in Citibank's prime rate, but it then turned and started to firm gently before closing at 2.3895 in London on Friday evening. That night in New York, following the release of the US money supply figures, sterling was marked up sharply, rising by 2 cents to close at 2.41, but selling in the Far East had taken it back to 2.4021 by the London opening on Monday. With some selling from the Middle East and Europe the rate moved down further, to trade actively in the range 2.39 1/2 - 2.40 but generally with a slightly softer tone. The release on Tuesday afternoon of the September banking figures, which revived hopes of an early cut in MLR, provoked some commercial selling, reinforcing the easier tendency and the rate fell to 2.38 3/4 before buyers appeared at the lower levels. On Wednesday, despite a very large order to sell sterling, the rate firmed against a slightly weaker dollar to end the period comfortably at 2.3922, a rise of 1/4 cent on the week. Sterling was almost unchanged on the Continent closing at 4.31 5/8 against the deutschemark and 3.92 and 10.00 3/4 against the Swiss and French francs respectively. Against the ECU sterling went to 1.7031, a premium of 9 1/2% on the notional central rate. Euro-dollar rates fell by 1/2% over the week, three-months' deposits closing at 12 7/8%, after adjustment, but with sterling interbank rates also lower and the cost of cover unchanged at 2 3/16% the covered differential in favour of sterling narrowed to 1/8%.

The 1% increase in Citibank's prime, to 14%, on Thursday caused the dollar to firm but the release on Friday of figures showing a sharp drop in the money supply, together with a statement by Mr. Volcker that he thought the recent rise in US rates had gone too far, led to a sharp drop in Euro-dollar rates and the dollar weakened in most centres. There was little intervention: the Fed sold \$55mn. mostly against deutschemarks, the Bundesbank sold \$70mn. and the mark improved to 1.8041. EMS remained relaxed, the florin (1.9609) at the top, 3 3/4% above the lira (858.70), the Bank of Italy selling \$260mn. The French franc (4.1835) was firm but the Belgian franc (28.97) moved to the bottom of the 2 1/4% band, following the resignation of the government. The National Bank provided \$125mn. in support in order to preserve the Benelux 'worm'. The Swiss franc (1.6386) strengthened further but, after purchases of nearly \$600mn. by the Bank of Japan, the yen (208.41) was unchanged over the week. Following a record C.\$1bn. trade surplus, the Canadians bought \$120mn. (net) while the Swedes provided \$70mn. in support of the crown.

Gold moved more narrowly than in recent weeks. The first fixing was at \$675.75 but the price fell sharply on Friday as the silver price dropped, fixing at \$660.50 in the afternoon. After the weekend, with the fighting in the Middle East intensifying, gold recovered to trade mostly in the \$670-680 range, ending the week at \$677, a fall of \$5 over the week.

8th October 1980.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>2nd October 1980</u>		<u>9th October 1980.</u>
<u>2.3865</u>	£/\$	<u>2.3893</u>
<u>75.7</u>	Effective exchange rate index	<u>75.8</u>
<u>1¼% p.a. disc.</u>	Forward 3-months	<u>2¼% p.a. disc.</u>
<u>13 7/16%</u>	Euro-\$ 3-months	<u>13 1/16%</u>
<u>½% pre.</u>	I.B.Comparison	<u>3/16% pre.</u>
<u>1.8072</u>	\$/DM	<u>1.8069</u>
<u>4.31¼</u>	£/DM	<u>4.31¼</u>
<u>10.00½</u>	£/FF	<u>10.01</u>
<u>208.42</u>	\$/Yen	<u>209.87</u>
<u>\$676</u>	Gold	<u>\$680</u>
<u>1.6415</u>	\$/S.Fc.	<u>1.6410</u>
<u>3.91¼</u>	£/S.Fc.	<u>3.92¼</u>