

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 15th October 1980

Exchange markets were active this week, reacting not only to movements in interest rates but also to more fundamental concerns over the outlook for some of the major economies. As dealers sought to reduce short positions, the dollar improved very sharply against most currencies. Sterling also gained ground, particularly on the Continent, the ERI rising 0.8 to 76.6.

On most days during the week there was a good two-way market in sterling and strong investment interest was seen. Buying on Wednesday night took the pound to 2.3960 at the New York close, but it opened on Thursday in London, against a stronger dollar, at 2.3906 and dipped to 2.3885 in early business. Following the announcement of an unchanged MLR, the rate moved steadily ahead on the back of demand from the US, in particular, breaching 2.40 in New York on Thursday night. Further buying on Friday took the rate to 2.4090 but there was some commercial selling at the higher levels and the rate eased back to close at 2.4054 that afternoon. After the weekend, against a much firmer dollar sterling was bought on both official and commercial account and the rate traded actively in the range 2.40-2.41 1/2 rising to touch 2.4162 early on Tuesday morning. However, as the dollar's advance continued the rate fell back to hold firm around the 2.40 3/4 level helped by news of the engineering union's pay recommendation and the good September trade figures. Sterling ended the period at 2.4084, a rise of 1 1/2 cents on the week. With much of the demand coming against sales of Continental currencies, the pound rose by 2% to 4.40 against the deutschemark, a four-year high and by 1 1/2 % against the Swiss and French francs to 3.96 7/8 and 10.16 1/8 respectively. Against the ECU sterling went to 1.7286, a premium of 10 7/8% on the notional central rate. Euro-dollar rates rose by 1/2% over the week, three-months' deposits closing at 13 1/4%, after allowance for technical factors but with the cost of cover at 2 3/8 % and firmer interbank rates, sterling's intrinsic premium remained at 1/8%.

Although the money supply figures published on Friday showed the expected decline, further indicators suggesting the recession had ended kept US domestic interest rates very firm and Euro-dollar rates moved higher. The increased cost of running a short dollar position coincided with a re-appraisal by the market of the prospects for some of the Continental currencies and there was a widespread movement out of deutschemarks, in particular, into dollars, sterling and yen. As a consequence, the dollar strengthened very sharply, reaching its best levels for six months in a number of centres. Sizeable support for the deutschemark was provided by the Bundesbank who sold \$220mn., and the Fed also sold \$220mn., mostly against purchases of deutschemarks. The mark fell 1 1/4% to 1.8267. With the mark under pressure, EMS was less relaxed. The French franc (4.2190) replaced the florin (1.9833) at the top, the Bank of France buying \$60mn. and \$58mn.-worth of deutschemarks. The lira (866.35) was 3 11/16% adrift after net purchases of \$27mn. by the Bank of Italy. Outside EMS, the Swiss franc (1.6480) weakened less than the mark, the cross-rate improving to 0.90 1/4. The yen, was again the subject of large investment interest and it gained a further 1/2% to 207.25, after purchases of \$42mn. by the Bank of Japan. The Swedish crown received no support and the Bank of Canada bought \$70mn net.

Gold was a fairly quiet market. The first fixing was at \$681.50 but the price rose to \$690 on Thursday afternoon. The higher levels were not, however, held and as the dollar strengthened, the price eased back to \$668.50 at the afternoon fixing on Tuesday before ending the period at \$678, almost unchanged on the week.

15th October 1980

Jim

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>9th October</u>		<u>16 October</u>
<u>2.3893</u>	£/\$	<u>2.4056</u>
<u>75.8</u>	Effective exchange rate index	<u>76.6</u>
<u>2½% p.a. disc.</u>	Forward 3-months	<u>2½% p.a. disc.</u>
<u>13 1/16%</u>	Euro-\$ 3-months	<u>13%</u>
<u>3/16% pre.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>1.8069</u>	\$/DM	<u>1.8257</u>
<u>4.31½</u>	£/DM	<u>4.39½</u>
<u>10.01</u>	£/FF	<u>10.14½</u>
<u>209.87</u>	\$/Yen	<u>207.95⁴</u>
<u>\$680</u>	Gold	<u>\$674</u>
<u>1.6410</u>	\$/S.Fc.	<u>1.6456</u>
<u>3.92½</u>	£/S.Fc.	<u>3.95½</u>