

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 5th November 1980

Another rise in US interest rates and the result of the US Presidential Election encouraged further flows into the dollar. In active, and at times rather nervous, trading the dollar moved to new 6-month highs in all major centres, save London and Tokyo. Sterling remained a little on the sidelines but substantial official and commercial demand was seen on some days. The ERI rose by 1.2 to a record 80.2.

Sterling closed in New York on Wednesday night at 2.4360, opened in London at 2.4391 and after some early selling in the Far East traded quietly in the 2.43½-2.44½ range before the weekend, holding firm against a steadily strengthening dollar. On Monday with the dollar sharply higher in most centres, sterling was initially sold down to 2.4255 as some banks took short positions. However, a large purchasing order on official account was followed by very substantial commercial demand and, in active trading, the rate rose to 2.4487, as dealers sought to cover their shorts. On Tuesday, renewed professional demand took sterling to 2.4555 in early business and although it dipped towards mid-day, the publication that afternoon of the banking figures, which were taken to defer further the prospect of a cut in interest rates, saw the rate marked up to 2.4565. Following the election, with the dollar breaking into new high ground, sterling continued to hold firm in a somewhat nervous market closing at 2.4470. The pound rose 3¼% to a series of recent highs against the major continental currencies, going to 4.75½ in Germany (after 4.75¼), 4.26¼ in Switzerland (after 4.27¼) and 10.94 in France (after 10.95¼). Against the ECU, sterling went to 1.8386, a premium of 16 3/16% on the notional central rate. Euro-dollar rates rose by just over 1%, three-months' deposits closing at 16 1/16%, after allowance for technical factors. With the cost of cover narrowing by 1% to 9/16% and little change in sterling interbank rates, sterling went to an intrinsic discount of ¼%.

The flow of funds from Europe into the US was given added impetus by higher US interest rates and the result of the US Presidential Election. Further evidence of the recovery in the economy, shown by the publication of the 2.4% rise in the index of leading indicators and upward revisions to the previous week's money supply figures, made for significantly higher Euro-dollar rates after the weekend. With the mark under heavy pressure, substantial support was provided, the Fed selling \$650mn. against deutschemarks and the Bundesbank selling \$65mn. The mark fell 3% to 1.9416. In the EMS the mark was at its 2¼% limit against the French franc, (4.4707) throughout the week and it also required some support against the guilder (2.1016). The French bought \$500mn.-worth of deutschemarks, the Germans sold \$500mn.-worth of French francs and guilders and the Dutch bought \$300mn.-worth of marks. The Belgian franc (31.10) was also weak, receiving \$65mn.-worth of support in French francs and guilders. The lira (912.50) improved to 3% below the French franc. Elsewhere the Swiss franc (1.7420) moved in line with the mark and the yen (211.40) eased following a 1% cut in discount rate. The Canadian dollar received support totalling \$200mn. net but the Swedes were able to buy \$80mn. and the Norwegians \$135mn.

Gold was an active market, the price easing initially, to fix at \$629 on Friday afternoon, as expectations grew that the US hostages in Iran might be released. After the weekend the price gradually rose, moving up sharply on the election result to touch \$660 in Hong Kong on Wednesday. It ended the period at \$652, a rise of \$8 on the week.

5th November 1980.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>30th October</u>		<u>6th November</u>
<u>2.4427</u>	<u>£/\$</u>	<u>2.4460</u>
<u>79.0</u>	<u>Effective exchange rate index</u>	<u>80.2</u>
<u>1 9/16% p.a. disc.</u>	<u>Forward 3-months</u>	<u>11/16% p.a. disc.</u>
<u>14½%</u>	<u>Euro-\$ 3-months</u>	<u>16 1/16%</u>
<u>5/16% pre.</u>	<u>I.B.Comparison</u>	<u>3/16% pre.</u>
<u>1.8876</u>	<u>\$/DM</u>	<u>1.9392</u>
<u>4.61 1/16</u>	<u>£/DM</u>	<u>4.74½</u>
<u>10.62½</u>	<u>£/FF</u>	<u>10.92½</u>
<u>209.47</u>	<u>\$/Yen</u>	<u>210.82</u>
<u>\$646</u>	<u>Gold</u>	<u>\$637</u>
<u>1.6977</u>	<u>\$/S.Fc.</u>	<u>1.7375</u>
<u>4.14½</u>	<u>£/S.Fc.</u>	<u>4.25</u>