

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 26th November 1980

The 2% cut in MLR to 14% had only a temporary effect on sterling and seemed only to winkle out more buyers of pounds who had held back until the announcement or who were reassured by the other measures. The dollar firmed a little as Euro-dollar and prime rates increased further. On balance, both currencies were little changed on the Continent. Sterling's ERI rose 0.2, closing at 77.8.

Sterling opened at 2.3763 on Thursday, after closing at 2.3812 the previous evening in New York. Commercial buyers at the lower levels and the absence of an MLR cut elicited short-covering and boosted the pound to 2.3945 before it closed at 2.3885. On Friday, first the Swiss and soon the Americans, were eager sellers and the pound fell to 2.3572 before the exhaustion of the new issue and some confusing prime rate signals gave it some support. It closed the week at 2.3640 in London and at 2.3600 in New York, but higher Euro-dollar rates gave a fillip to the dollar on Monday and the pound opened the new week at 2.3492. The discussion of the Chancellor's package in the press over the weekend left only the MLR cut uncertain. The rate changed little on balance on Monday evening and even firmed to 2.3620 as the first details of the package emerged. After the announced cut in MLR, a new level of 2.3475 was soon established but sterling weakened after hours to 2.3330 in New York. Buyers of sterling who had held off until MLR was cut were evident on Tuesday, when the rate advanced to 2.3630, and on Wednesday, when it touched 2.3775 before closing at 2.3700, for a loss of less than $\frac{1}{2}\%$ on the week. Sterling was also little changed on the Continent, closing at 4.55 $\frac{1}{2}$ against the deutschemark and 4.10 $\frac{1}{2}$ and 10.55 $\frac{1}{2}$ against the Swiss and French francs, respectively. Against the ECU, sterling went to 1.7814, a premium of 13 $\frac{1}{2}\%$ on the notional central rate. Euro-dollar rates rose over 1 $\frac{1}{2}\%$, three-months' deposits closing at 17 13/16%, after allowance for technical factors. With the cut in MLR, sterling interbank rates fell 1% and sterling's forward premium widened to 2 $\frac{1}{2}\%$. The changes in the levels of both interest rates left a covered differential of $\frac{1}{8}\%$ in favour of the dollar.

There were steady increases in Euro-dollar rates and further increases in the major banks' prime rates, to 17% on Friday and to 17 $\frac{1}{2}\%$ on Wednesday. The dollar's movement was not as clear cut, however, and on balance the rate was only slightly firmer over the week. Interpretation of the further increases in the weekly monetary aggregates is still uncertain and they had little impact. The increase of 1% in the CPI announced Tuesday led to a softer trend. The Fed sold \$250mn. against marks, and the mark closed at 1.9214. Intervention in the EMS was minimal: the Dutch bought \$3mn.-worth of Belgian francs and the guilder (2.0840) closed 2 1/16% above the franc (30.87). The French franc (4.4545) drifted lower in the narrow band after sales of \$60mn.-worth of marks. The Germans moved to mop up liquidity while the Swiss (1.7321) eased theirs. Elsewhere, slight (\$35mn.) support for the Swedish crown was required; the Canadians also were small net sellers of dollars. The yen closed at 216.17, weakening on the last day of the period from 213 $\frac{1}{2}$ on reports that exchange controls were to be lifted.

Gold was fixed progressively lower, from \$634.50 on Thursday morning to \$613.25 on Tuesday morning, after weakening sharply on Monday night, as the rising cost of holding the metal took its toll. A rally on Wednesday, however, brought it back to \$623 in the afternoon fixing, for a fall of \$6 over the week.

26th November 1980.
C.P. MANN

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
20th November		27th November
<u>2.3840</u>		<u>2.3653</u>
	E/\$	
<u>77.7</u>	Effective exchange rate index	<u>77.7</u>
<u>1% pre.</u>	Forward 3-months	<u>3 3/16% pre.</u>
<u>16 5/16%</u>	Euro-\$ 3-months	<u>18%</u>
<u>1/16% pre.</u>	I.B.Comparison	<u>1/4% disc.</u>
<u>1.9022</u>	\$/DM	<u>1.9260</u>
<u>4.53 1/2</u>	E/DM	<u>4.55 1/2</u>
<u>10.52</u>	E/FF	<u>10.56 1/4</u>
<u>212.83</u>	\$/Yen .	<u>215.87</u>
<u>\$634</u>	Gold	<u>\$620</u>
<u>1.7130</u>	\$/S.Fc.	<u>1.7372</u>
<u>4.08 3/4</u>	E/S.Fc.	<u>4.10 3/4</u>