

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 17th December 1980

As a growing number of banks ceased active trading until the year end, the exchange markets became thin and unsatisfactory. Record US interest rates and an increase in OPEC oil prices made for a stronger dollar. Sterling was a dull market; the ERI fell 0.5 to 77.4.

With the exception of a brief flurry on Thursday sterling was a quiet and featureless market for much of the week. After closing in New York on Wednesday night at 2.3395 sterling opened in London on Thursday at 2.3385, rising to touch 2.34 in early business. However, the rate began to give ground as the dollar strengthened generally in Europe, easing to 2.32 before a rumour that a major oil producer was diversifying out of sterling swept the market. In active trading the rate fell quickly to 2.3015 before recovering to 2.3170 by the close. On Friday, against a slightly softer dollar, sterling traded fairly narrowly in the 2.31-2.32½ range closing at 2.3240 that evening. The same pattern was initially continued on Monday with sterling trading up to 2.3395 but easing back as it became clear that US interest rates had not peaked as many in the market had hoped. As the dollar returned to its strongest levels in Europe, sterling settled to trade quietly in the 2.31-2.33 range, closing the period at 2.3205, a fall of 2 cents on the week. Sterling lost a little ground on the Continent, falling by ¼% to 4.63½ against the mark, and by ½% to 4.20¼ and 10.74½ against the Swiss and French francs respectively. Against the ECU sterling went to 1.8080, a premium of 14¼% on the notional central rate. Euro-dollar rates rose by 1½ to new highs, three-month deposits closing at 21¼%. With the forward premium for three month sterling widening a little to 7%, there was a ½% covered differential against London.

US interest rates broke into new ground during the week as credit conditions in the US domestic market tightened further. Fed Funds traded up to 21% and primes, led by Morgan Guaranty, also moved to a record 21% on Tuesday. The dollar strengthened at first, reaching its highest level for over two years in some European centres but ended the week only a little firmer. There was some intervention by the Fed, who sold a net \$250 mn. against purchases of deutschmarks, but the Bundesbank sold only \$17 mn. for its own account and the deutschmark closed at 1.9975 (after 2.0322 on Friday). EMS was fairly relaxed with the Belgian franc (32.20) at the bottom of the 2½% band throughout the week, the National Bank providing support totalling \$40 mn. in French francs and guilders. The French franc (4.6292) was initially at the top of the arrangement but was replaced after the weekend by the guilder (2.17). The Danish crown (6.1352) was again strong and the Central Bank bought \$40 mn. The lira (947.75) remained 3¼% below the guilder after net purchases by the Bank of Italy of \$135 mn. Elsewhere, the Swiss franc (1.8142) eased to 0.90½ against the mark but the yen was a little changed over the week at 209.07. The Swedish crown received support totalling \$100 mn. and the Norwegians bought \$15 mn. As Canadian interest rates fell further below US rates, the Canadian dollar came under pressure and net support totalling \$400 mn. was provided.

Gold was very active. The first fixing was at \$573.50 but heavy selling in a nervous market drove the price down to \$541 in Hong Kong on Friday morning. Sizeable buying was then seen and the price rose through \$550 to trade in the \$550-580 range for the remainder of the week, fixing at \$575½ on Wednesday afternoon.

17th December 1980
T.R.S.

RATES, ETC.

10.15 a.m.

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<u>11th December</u>		<u>18th December</u>
<u>2.3375</u>	£/\$	<u>2.3252</u>
<u>78.2</u>	Effective exchange rate index	<u>77.5</u>
<u>6½% pre.</u>	Forward 3-months	<u>6½% pre.</u>
<u>21¾%</u>	Euro-\$ 3-months	<u>21 13/16%</u>
<u>½% disc.</u>	I.B. Comparison	<u>½% disc.</u>
<u>2.0147</u>	\$/DM	<u>2.0000</u>
<u>4.71</u>	£/DM	<u>4.65</u>
<u>10.88½</u>	£/FF	<u>10.76</u>
<u>210.50</u>	\$/Yen	<u>209.52</u>
<u>\$569</u>	Gold	<u>\$578</u>
<u>1.8282</u>	\$/S.Fc.	<u>1.8142</u>
<u>4.27 ¾</u>	£/S.Fc.	<u>4.21½</u>