# FOREIGN EXCHANGE AND GOLD MARKETS

## Week ending 27th February 1980

Yet higher interest rates in the USA caused the dollar to advance in most centres. Nevertheless, sterling was very firm, rising 1% in effective terms to 73.2.

Having opened only a touch higher than the previous London close of 2.2780, sterling soon came into professional and commercial demand which carried the rate to 2.2910 on Thursday afternoon. The further rise in US interest rates on Friday, followed by the breakdown of steel talks, caused sterling to be marked down to 2.2695 in New York before markets closed for the weekend; but the pound withstood the dollar's firmness, on Friday and later, better than most leading currencies, and professional and commercial demand returned after the weekend. Sterling closed the period at 2.2867 after 2.2885, a rise of 0.9 cents over the week. It gained rather more on the Continent, closing at 4.03, 3.81½ and 9.44⅞ against the mark, Swiss and French francs respectively. Against the ECU it went to 1.6115, a premium of 4⅜% on the notional central rate. Domestic dollar interest rates tugged up rates in the euro-dollar market; the cost of cover shrank to 2%, but the covered margin against London nevertheless widened to 11/16% on the customary 3-months' comparison.

Another round of prime rate increases by US banks on Friday, some to 16½%, was the dominant influence on the exchanges. The dollar promptly improved and subsequently kept or added to its gains in most centres. US money supply fell slightly; poor inflation figures had probably been discounted. The Fed bought $40 mn.-worth of marks in the market. The Bundesbank, for their part, sold $800 mn., partly to soak up the proceeds of foreign deutschemark issues. The mark weakened 0.9% to 1.7620 after 1.7685. An influential research institute predicted worse balance of payments and a lower mark. There was talk of an increase in discount rate. The lira, which eased to 816.50, headed the EMS throughout, closing 1 15/16% above the Belgian franc (28.61 and 71 divergent, after 76 on Monday). The Italians rather surprisingly gave their currency some $40 mn. of support. The Belgians sold $50 mn. and altogether $150 mn.-worth of marks, guilders and French francs; and they raised discount rate by 1½% to 12% on the 27th. The French franc weakened 1% to 4.1320, partly on poor inflation figures. The central bank sold $10 mn. The remaining EMS currencies traded comfortably enough, the pressure seemingly coming off the Danish crown. However the Swiss franc (1⅞% weaker at 1.6682, and over SF 0.94⅝ against the mark) fell despite last week's easing of the restrictions on the payment of interest on foreign accounts, and the SNB sold $150 mn. outright forward while buying dollars on the swap to to help the domestic money market. The yen was soft again despite $450 mn. of support: it weakened 1% to 248.24. The Canadian dollar, on the other hand, improved against its neighbour, allowing the central bank to add nearly $200 mn. to reserves.

Having risen sharply in late trading on the 20th, gold tended to soften as the dollar improved; however the afternoon fix on 27th February ($636) showed a rise of $30 over the corresponding session a week earlier.

27th February 1980
PAB

# RATES, ETC.

| 10.15 a.m. | | 10.15 a.m. |
|---|---|---|
| 21st February | | 28th February |
| 2.2823 | £/$ | 2.2860 |
| 72.7 | Effective exchange rate index | 73.2 |
| 2⅛% p.a. disc. | Forward 3-months | 1¾% p.a.disc. |
| 16⅛% | Euro-$ 3-months | 16 13/16% |
| 9/16% disc. | I.B.Comparison | ⅝% disc. |
| 1.7458 | $/DM | 1.7603 |
| 3.98 7/16 | £/DM | 4.02⅜ |
| 9.34⅜ | £/FF | 9.44¼ |
| 246.00 | $/Yen | 248.28 |
| $646.00 | Gold | $643.50 |
| 1.6405 | $/S.Fc. | 1.6687 |
| 3.74⅜ | £/S.Fc. | 3.81½ |