FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 5th March 1980

Yet higher interest rates caused the dollar to rise against most currencies despite massive official sales. Sterling held up well before the weekend, but later gave ground; the ERI fell 1¼% to 72.3 after 71.7.

Sterling's starting point on Thursday - a firm 2.2890, slightly higher than the previous close - proved to be the strongest level of the week as even higher interest rates brought the dollar into growing demand. Selling in a thin market carried sterling down to 2.2690 on Friday afternoon before bargain hunters lifted the rate back to 2.2745 at the weekend close. The pound started the new week quietly, but commercial selling, soon reinforced by professional offerings, depressed the rate and sparked heavy selling from the Chicago exchange. The pattern was repeated on Tuesday, when sterling touched 2.2222 late on before regaining a cent on short covering. Wednesday was a quieter day, sterling drifting from 2.2472 during the morning to close at 2.2445, a net fall of 4¼ cents in the period. The February reserve announcement had no effect; various gloomy economic forecasts were published, but there was no fresh news of significance. Sterling gained on the Continental currencies before the weekend, for example touching 4.04⅛ against the mark; but it later lost ground to close weaker at 4.00⅞ and 9.39¾ against the mark and French franc respectively, although it strengthened in Switzerland. Against the ECU the pound went to 1.60¼, a premium of 3⅞% on the notional central rate. A steep increase in euro-dollars (some 1¼ to 17⅞% at three months, after allowance for technical factors) widened the intrinsic discount on sterling to 15/16%, although the domestic interbank market also tightened and the cost of cover shrank to 1½%.

Interest rates once more dominated the dollar's performance. There was no further change in Fed discount rate, but several major banks increased prime rate again to 17¼%. President Carter is expected to make a statement on the economy in the next few days; budget cuts and perhaps credit controls are talked of. Poor trade figures were apparently discounted. The dollar strengthened sharply. The Fed confined themselves to buying $80 mn.-worth of yen and $20 mn.-worth of marks. The Bundesbank on the other hand sold a massive $1.9 bn. Their mark touched 1.7918 on Wednesday; it closed 1.4% weaker at 1.7859, a 1% increase in discount rate (to 7%) and 1½% rise in Lombard rate on Thursday notwithstanding. The mark has not been at these levels since early November. Despite a 1% increase in discount and Lombard rates (to 2% and 3% respectively), and the recent easing of restrictions on inflows, the Swiss franc was even weaker. It closed 2.4% down at 1.7079 after 1.7192, the lowest for 9 months; against the mark it softened to SF 0.95⅝. The SNB gave it $360 mn. of support (in addition they sold $50 mn. against yen, to help the Japanese). The EMS was stretched 1 13/16% between the guilder (1.9624) and the Belgian franc (28.99 and 74 on the divergence index). The Belgians sold a mixture of dollars, French francs, lire, marks and guilders amounting to $380 mn. The French franc (4.1852) was comparatively comfortable as were the smaller EMS currencies, although the lira (828.95) lost ground. The French bought $80 mn. and raised some administered interest rates; the Irish sold $30 mn. All these currencies weakened against the dollar. Elsewhere, the yen gained ½% to 246.95 (after 252), but massive support ($2¼ bn. by the Bank of Japan, in addition to the small amount undertaken on their own account by the Fed and the SNB) was needed to accomplish this and to validate the various steps to ease inward exchange controls and line up support announced over the weekend. Chicago selling led the Bank of Canada to spend $70 mn. (net) to support their currency.

The turmoil in the exchanges left gold untouched, the price edging up $7½ to $643½ in a quiet market. The IMF auctioned 444,000 ozs. at an average price of $641.23 on Wednesday.

5th March 1980
BAB

RATES, ETC.

10.15 a.m. 28th February		10.15 a.m. 6th March
2.2860	£/$	2.2336
73.2	Effective exchange rate index	72.1
1¾% p.a. disc.	Forward 3-months	1 1/16% p.a. disc.
16 13/16%	Euro-$ 3-months	18⅜%
⅝% disc.	I.B.Comparison	1⅛% disc.
1.7603	$/DM	1.7944
4.02⅜	£/DM	4.00¾
9.44¼	£/FF	9.39½
248.28	$/Yen	247.57
$643.50	Gold	$635.75
1.6687	$/S.Fc.	1.7136
3.81½	£/S.Fc.	3.82¾