

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 26th March 1980

End-quarter buying by oil companies and some interest ahead of the Budget helped sterling to rise 0.7 in effective terms to 72.9 after 72.0 before the weekend. The dollar made further gains in most centres.

Like other currencies, sterling strengthened against the dollar late on Wednesday and the following morning, when the rate touched 2.2050, nearly $1\frac{1}{2}$ cents above the previous London close. The money figures were regarded as slightly disappointing, however, and the dollar recovered, leaving sterling to close for the weekend at 2.1815. The dollar opened stronger on Monday, and sterling touched 2.1735 in early dealings; but commercial demand for pounds soon asserted itself, and there was some interest from the Middle East. The approach of the Budget brought further firmness on Tuesday and Wednesday, and the rate stood at 2.2005 (after 2.2056) when the Chancellor began. The official London close was taken at 2.2020 when he was still speaking. The pound rose strongly on the Continent, closing $1\frac{1}{2}\%$ higher at 4.16 $\frac{1}{2}$ against the mark, and at 3.94 $\frac{1}{2}$ and 9.66 $\frac{1}{2}$ against the Swiss and French francs. Against the ECU it rose to 1.6507, a premium of 6 $\frac{1}{2}\%$ on the notional central rate. A rather uneven course left 3-months' euro-dollars some $\frac{1}{2}\%$ higher, at 19 $\frac{1}{2}\%$, after allowance for technical factors; however, the premium on forward sterling narrowed to $\frac{3}{8}\%$, causing an intrinsic discount of 5/16 $\%$ to re-emerge.

The dollar again strengthened on balance, although money supply was disappointing, the latest inflation figures were no better than expected, and Senator Kennedy's primary victories caused it to be marked down. There was a pause in the rush to increase prime rates. The Fed sold \$90 mn. against marks. The Bundesbank, for their part, sold \$200 mn.; the Bank of France also bought marks, some \$110 mn.-worth. The mark touched 1.8985 on Tuesday, the weakest for nine months, before closing at 1.8911. The Germans increased their efforts to borrow abroad, in the process drawing attention to the novel weakness of their currency. The French franc (4.3882) remained top of the EMS, 1 15/16% above the Danish crown (5.9102), which slipped to bottom place. In addition to the marks, the French bought \$40 mn. and \$60 mn.-worth of Swiss francs. The Belgians did not intervene; a more even spread of currencies on the parity grid reduced their franc's divergence to 52. The Danes spent \$50 mn. and \$30 mn.-worth of French francs. The Irish bought \$30 mn.-worth of sterling. The other EMS currencies traded without feature. All fell against the dollar. So did the Swiss franc (by 1.2% to 1.7913); the SNB confined themselves to swapping in order to ease end-quarter shortage in their money market. Although bank rate duly floated up, the Canadian dollar was under some pressure, receiving \$210 mn. of official support. The yen was steadier than most, closing only a touch weaker at 248.65. The central bank sold \$90 mn.

Anxious buyers drove the gold price to \$561 at each fix on Thursday. This level could not be sustained, however, although a turn for the worse in Iran revived buying interest on Monday. On balance price fell \$19 $\frac{1}{2}$ in the week to \$507 $\frac{1}{2}$.

26th March 1980
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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>20th March</u>		<u>27th March</u>
<u>2.2020</u>	£/\$	<u>2.1840</u>
<u>72.5</u>	Effective exchange rate index	<u>72.6</u>
<u>5/16% p.a. pre.</u>	Forward 3-months	<u>3/8 p.a. pre.</u>
<u>18 9/16%</u>	Euro-\$ 3-months	<u>19 3/16%</u>
<u>5/16% disc.</u>	I.B.Comparison	<u>3/8 disc.</u>
<u>1.8653</u>	\$/DM	<u>1.9088</u>
<u>4.10 1/4</u>	£/DM	<u>4.16 7/8</u>
<u>9.59</u>	£/FF	<u>9.65 1/2</u>
<u>248.35</u>	\$/Yen	<u>249.77</u>
<u>\$554.00</u>	Gold	<u>\$487</u>
<u>1.7597</u>	\$/S.Fc.	<u>1.8057</u>
<u>3.87 1/2</u>	£/S.Fc.	<u>3.94 1/4</u>