

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 2nd April 1980

Yet higher interest rates underpinned the dollar, which reached levels not seen for eighteen months or more despite official sales of some \$5 bn. Sterling fell less than most currencies, losing only $\frac{1}{8}\%$ in effective terms to 72.7 after 72.3.

Reading some slackening of resolve into the Budget speech, Chicago dealers sold sterling on Wednesday night, driving the rate down 2 $\frac{1}{2}$ cents to 2.1752 between the London close and the end of trading in New York. 2.1741 was the first price on Thursday morning, but Europeans were not inclined to sell pounds and the rate was bid up to 2.1846 at one time during the afternoon before relapsing to 2.1750 at the close on Friday as the dollar strengthened everywhere. The dollar's progress continued after the weekend, and sterling, although more reluctant to give ground than many other currencies, traded down to 2.1270 on Tuesday. A later recovery to 2.16 that evening in New York indicates the market's volatility. The pound eased back to 2.1420 on Middle Eastern selling on Wednesday morning before closing at 2.1575. The steel settlement, cuts in Middle Eastern oil production and the Iranian price increase may have helped sterling. For most of the time there was good two-way business. The pound strengthened on the Continent, by 0.9% to 4.20 $\frac{1}{2}$ against the mark (after 4.22 $\frac{1}{2}$), by 1.1% to 3.98 $\frac{1}{2}$ against the Swiss franc, but by rather less, to 9.68 $\frac{1}{2}$, in Paris. Against the ECU it went to 1.6609, a premium of 7 $\frac{1}{2}\%$ on the notional central rate. Euro-dollars rose, to 19 9/16 $\frac{1}{2}$ at three-months; with the premium on forward sterling (1 $\frac{1}{2}\%$) and interbank sterling rates also harder, an intrinsic premium of $\frac{1}{8}\%$ emerged.

The dollar's rise, prompted by US interest rates - Federal funds commonly trading over 20%, some primes going to 20% - gained momentum, taking the currency to levels not seen since Autumn 1978 in several centres, and for considerably longer in some. Poor US trade figures had no noticeable effect. The Fed intervened heavily on Monday, and in smaller amounts on other days: altogether they sold \$780 mn., mostly buying marks. The Bundesbank sold \$980 mn. and also \$50 mn.-worth of French francs. They announced no monetary measures. 1.9795 was the weakest rate for the mark; it closed 3% down at 1.9480. It jostled with the Belgian franc (31.24) and the Danish crown (6.0650) at the foot of the EMS, the last closing there, at 2 $\frac{1}{2}\%$ below the French franc (4.4905) which was the most divergent currency at -73. The Belgians sold \$100 mn.-worth of French francs; the Danes sold \$40 mn. and \$30 mn.-worth of French francs; and the French bought \$50 mn., \$300 mn.-worth of marks, \$50 mn.-worth of Swiss francs and a handful of Belgian currency. The Dutch sold \$300 mn. to brake the decline of their guilder (2.1285), although it was well-placed in the EMS. The lira and the Irish pound weakened against the dollar, but without special feature. The SNB announced their wish for a mark cross-rate of SF 0.94, but their franc actually weakened to SF 0.94 $\frac{1}{2}$; against the dollar, it fell 3 $\frac{1}{2}\%$ to 1.8490 after 1.8777. They sold just \$1 bn., but bought dollars on the swap to help the domestic money market. The conclusion of a swap facility worth about \$0.8 bn. with the Japanese helped neither their franc nor the yen; the latter weakened 3.3% to 256.90 after a reported 258 in Tokyo on Wednesday. The Bank of Japan sold \$1,820 mn. The Canadian dollar also felt the chill of its neighbour's strength; the Bank of Canada supported with \$90 mn.

Gold touched \$471 in late trading on Thursday, but on the whole stood up well to the dollar's strength and to events in the silver market. On balance, the price fell \$7 to \$500 $\frac{1}{2}$. However, the 444,000 ozs. auctioned by the IMF on Wednesday fetched only \$484.01 on average.

RATES, ETC.

10.15 a.m.

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<u>27th March</u>		<u>3rd April</u>
<u>2.1840</u>	£/\$	<u>2.1505</u>
<u>72.6</u>	Effective exchange rate index	<u>72.6</u>
<u>¼% p.a. pre.</u>	Forward 3-months	<u>1 5/16% p.a. pre.</u>
<u>19 3/16%</u>	Euro-\$ 3-months	<u>19¼%</u>
<u>½% disc.</u>	I.B. Comparison	<u>parity</u>
<u>1.9088</u>	\$/DM	<u>1.9545</u>
<u>4.16¾</u>	£/DM	<u>4.20 5/16</u>
<u>9.65½</u>	£/FF	<u>9.70 15/16</u>
<u>249.77</u>	\$/Yen	<u>257.72</u>
<u>\$487</u>	Gold	<u>\$487</u>
<u>1.8057</u>	\$/S.Fc.	<u>1.8575</u>
<u>3.94¼</u>	£/S.Fc.	<u>3.99½</u>