

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 9th April 1980

Renewed tension over Iran and a feeling in the market that US interest rates have peaked drove the dollar sharply lower after the Easter weekend. Just as sterling had felt the dollar's earlier strength less than other currencies, so it remained on the sidelines as the dollar fell. The ERI declined  $\frac{1}{2}\%$  to 72.1, after 72.9.

Sterling began the period quietly, drifting down  $1\frac{1}{2}$  cents against a generally stronger dollar to close for the Easter weekend at 2.1397. Over the holiday it traded between 2.1275 and 2.14 in New York (open on both Friday and Monday), and started in London on Tuesday at 2.1368. By that afternoon the dollar was on the slide, and good Middle Eastern demand drove sterling up to 2.1580 at the official close and over 2.18 that evening. Sterling's further rise on Wednesday morning, to 2.2022, only palely reflected the dollar's sharp fall, however; there was no particular interest to buy pounds, and the rate eased back to close the period at 2.1760. The pound's strength on Tuesday brought further gains on the Continent, for example to 4.22 $\frac{1}{2}$  against the mark; but the dramatic strengthening of Continental currencies the following day left sterling gasping, and it closed 2% down against the mark, at 4.12, and at 3.88 $\frac{1}{2}$  and 9.50% against the Swiss and French francs. Against the ECU sterling weakened to 1.6382, a premium of 6% on the notional central rate. Both euro-dollars and interbank sterling fell; a slightly narrower premium on forward sterling (1 1/16%) left an intrinsic discount of  $\frac{1}{8}\%$ .

The dollar's fortunes changed after the long weekend. Beforehand it had gained in most centres, without reaching the levels of a few days earlier; but the end of US diplomatic relations with Iran, the trade embargo, the listing of Iranian assets in the USA, and the Iranian reaction to all this, together with a widespread impression that US interest rates have peaked, gave the dollar a sharp jolt late on Tuesday and (especially) on Wednesday. The Fed on balance bought \$320 mn. against marks and \$20 mn. against French francs. With the mark near the bottom of the EMS, the Bundesbank were reluctant to help; they bought only \$10 mn. (net), but sold \$230 mn.-worth of French francs to keep within the band. The mark closed at 1.8937, a net gain of 2 $\frac{1}{2}\%$ , after 1.9767 (on Tuesday morning) and 1.88 (Wednesday). Substantial buying interest brought an improvement to 4.37 in the French franc. The central bank bought \$90 mn., \$130 mn.-worth of marks, and a few Belgian francs. It was top of the EMS throughout; at -71 on the index it was easily the most divergent currency. The Belgian franc (30.38) and the Danish crown (5.8725) jostled with the mark at the foot of the EMS, the former closing there 2% below the French currency. The Belgians (whose government resigned on Wednesday) sold \$140 mn.-worth of French francs; the Danes by contrast scarcely intervened. The other EMS currencies shared in the general movements against the dollar without special features. Outside the EMS, the Swiss franc outstripped the mark, closing at SF.O.94 $\frac{1}{2}$  (and 1.7860 against the dollar); the SNB spent \$380 mn. The yen was very weak at times, touching 265 in Tokyo on Monday, but it improved as the dollar fell to close  $1\frac{1}{2}\%$  better on the week at 252.60. The Bank of Japan sold a modest \$70 mn. The Canadians on the other hand added \$230 mn. to reserves; their interest rates continued to float up.

Gold drooped after last week's IMF auction, trading as low as \$473 in the Far East on Thursday. However, Iran and the fall of the dollar brought a recovery in the price, which fixed at \$554 on Wednesday afternoon, a net increase of \$53 $\frac{1}{2}$  in the week.

jpr

RATES, ETC.

10.15 a.m.

10.15 a.m.

3rd April

10th April

2.1505

£/\$

2.1890

72.6

Effective exchange rate index

72.1

1 5/16% p.a. pre.

Forward 3-months

1% p.a. pre.

19 $\frac{1}{8}$ %

Euro-\$ 3-months

18 $\frac{3}{8}$ %

parity

\* I.B. Comparison

1/16% pre.

1.9545

\$/DM

1.8730

4.20 5/16

£/DM

4.10

9.70 15/16

£/FF

9.47 $\frac{1}{2}$

257.72

\$/Yen

249.45

\$487

Gold

\$542

1.8575

\$/S.Fc.

1.7735

3.99 $\frac{1}{2}$

£/S.Fc.

3.88 $\frac{1}{2}$