

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 16th April 1980

Falls in US interest rates and the situation in the Near East made for nervous and volatile currency markets, in which the dollar underwent great vicissitudes. Sterling was sheltered from the worst movements, rising 0.7 in effective terms to 72.8 after 73.0.

Late buying in New York on Wednesday and early demand the following morning lifted sterling nearly 2 cents above the previous official London close of 2.1760. The higher level was not long maintained, however, and sterling fell back to 2.1755 against a resurgent dollar before closing on Thursday at 2.1845. The banking figures were well received. Friday was a quiet day, the new repurchase arrangement with the banks having little effect on the exchanges, until vigorous buying in Chicago took the rate above 2.20 in the evening. The first rate after the weekend was 2.2145, and sterling traded up to 2.2192 against a weak dollar until another turn in the latter's fortunes carried the rate down to 2.18½ in late trading on Tuesday. Wednesday started quietly, but sterling rose to close the period at 2.2150 as the dollar once again fell sharply during the afternoon. However, the pound proved less volatile against the dollar than the main Continental currencies, tending to gain on them when the dollar was strong and to weaken when it gave ground. Overall sterling rose against the mark and the French franc, to 4.13½ and 9.58½, but weakened to 3.83½ in Switzerland. Against the ECU, sterling strengthened to 1.6476, a premium of 6½% on the notional central rate. Euro-dollar rates fell steadily, by 1 3/16% to 17¼% at 3 months; interbank sterling and the forward premium also fell, but by less (the latter to ¾%), turning a small intrinsic discount into a premium of ¼%.

The dollar enjoyed mixed fortunes in a nervous and volatile market. Signs of recession in the US economy multiplied; but interest rates fell (Chase cutting their prime rate to 19¼% on Wednesday) and Iran came to the fore again, although without a clear-cut message for the dollar. Money supply was virtually unchanged. The Fed supported energetically on two days; on balance they bought \$630 mn., mostly against marks. Although the mark (1.8660) was pretty volatile, trading between 1.8547 and 1.8995, the Bundesbank were not very active in the market, buying just \$25 mn. No monetary measures were announced. The French franc (4.3275) and its Belgian neighbour (30.07) remained top and bottom of the EMS, 2% apart. With other currencies well spread across the band they were roughly equally divergent, though the French currency closed the more so at -58. Intervention by the French and Belgian central banks was small. The lira (871¼) was probably not helped by poor trade figures, but it is still under no pressure. The Irish sold a few dollars and \$20 mn.-worth of sterling. All the EMS currencies were volatile against the dollar, strengthening over the week. Outside the EMS, the Swiss franc showed its paces early on; overall it improved over 3% against the dollar, to 1.7310, and strengthened to SF 0.92¼ against the mark. Nevertheless the SNB sold \$30 mn. The Swedish crown required further support, but the yen was steady, closing 1.6% better at 248.60. The forthcoming Quebec referendum gave the Canadian dollar an uneasy time after the weekend; the Bank of Canada operated both ways, giving it \$80 mn. of support on balance.

Gold fell sharply in New York on Monday, fixing as low as \$495½ in London the next morning; but further international tension brought a recovery to \$520 at the session on Wednesday afternoon, a net fall of \$34 in the week.

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RATES, ETC.

10.15 a.m.

10.15 a.m.

10th April

17th April

2.1890

£/\$

2.2297

72.1

Effective exchange rate index

73.1

1% p.a. pre

Forward 3-months

½% p.a. pre.

18½%

Euro-\$ 3-months

17 15/16%

1/16% pre.

I.B.Comparison

½% pre.

1.8730

\$/DM

1.8580

4.10

£/DM

4.14½

9.47½

£/FF

9.60½

249.45

\$/Yen

248.20

\$542

Gold

\$509½

1.7735

\$/S.Fc.

1.7330

3.88½

£/S.Fc.

3.86½