

## FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 23rd April 1980

US interest rates and developments in Iran again dominated nervous and uneven exchange markets. The dollar ended weaker in all main centres, but official intervention was small. Sterling rose 0.9% in effective terms to 73.5 after 73.7.

Sterling ended an uneven session in New York on Wednesday night at 2.2265, over a cent above the previous London close, and began at 2.2282 against a generally weak dollar on Thursday morning. Investment demand from the Continent took the rate up to 2.24 later in the day, but sterling then drifted back quietly to 2.22 before closing for the weekend at 2.2285. The trade, money and retail price figures were all helpful if anything. The pound made a brisk start on Monday morning, at 2.23 against a stronger dollar, rising to 2.2405 on Middle Eastern interest and later to 2.2480 in Chicago. Despite a sizeable commercial selling order, the firm tone held on Tuesday, and, notwithstanding the Saudi Arabian request that the British Ambassador be withdrawn, sterling traded up to 2.2665 when the dollar weakened on Wednesday, closing the period at 2.2585 for a net gain of over 4½ cents. Once again there was buying from the Middle East. As has become customary, sterling tended to gain on Continental currencies when the dollar was on the up, and to weaken against them when the dollar declined; on balance the pound closed mixed; lower at 4.12½ (after 4.16½) in Germany, but higher at 3.85½ and 9.61½ against the Swiss and French francs. Against the ECU sterling closed at 1.6457, a premium of 6½% on the notional central rate. 3 months' eurodollars fell no less than 2½% to 15½%; although the premium on forward sterling turned to a discount of 13/16%, the covered margin in London's favour widened to ¾%.

Further signs of recession in the US economy and a surprising drop in money supply to some extent tempered the effect on the dollar of sharp falls in interest rates and continuing rapid inflation. Many major US banks cut prime rate ½% to 19½% on Friday; market rates fell further; and on Wednesday Chase Manhattan reduced their prime rate to 19%. Iran made for a nervous market, without however clear-cut implications for the dollar. On balance the dollar weakened, falling quite sharply at the end of the period, though its course was very uneven. The Fed bought \$220 mn., mostly against marks. The Bundesbank did not intervene on balance; they announced no monetary measures on Thursday. The mark closed 2½% stronger at 1.8270, after 1.8237 (and 1.8647); it rose to the middle of a relaxed EMS in which the French franc (4.2575) closed only 1½% above the lira (858) which replaced the Belgian franc (29.16) at the bottom. The lira of course has a 6% margin of fluctuation; the French franc stood barely 1½% above the weakest 2½% currency, the Danish crown (5.7150). All the participants strengthened against the dollar, if unsteadily. For once intervention was negligible, unlike in Sweden, where the central bank sold \$190 mn., and in Canada, where \$70 mn. (net) was added to reserves despite some fall in interest rates. The Swiss franc went to 1.7080, but weakened to SFO.93½ against the mark; the SNB confined themselves to buying dollars on the swap. The yen closed steady and without support at 245.57; the Iranians stopped oil supplies because the Japanese balked at the price asked for them.

Gold weakened in New York on Thursday, apparently on recession news. Even tension in the Near East did little to revive buying interest, and the price fell \$13½ to \$506½ in the period after \$494½ at the morning fix on Tuesday.

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RATES, ETC.10.15 a.m.10.15 a.m.

<u>17th April</u>		<u>24th April</u>
<u>2.2297</u>	£/\$	<u>2.2620</u>
<u>73.1</u>	Effective exchange rate index	<u>73.4</u>
<u><math>\frac{3}{8}</math> p.a. pre</u>	Forward 3-months	<u>11/16% p.a. disc.</u>
<u>17 15/16%</u>	Euro-\$ 3-months	<u>16 1/16%</u>
<u><math>\frac{1}{8}</math> pre.</u>	I.B. Comparison	<u><math>\frac{3}{8}</math> pre.</u>
<u>1.8580</u>	\$/DM	<u>1.8195</u>
<u>4.14<math>\frac{1}{4}</math></u>	£/DM	<u>4.11 9/16</u>
<u>9.60<math>\frac{1}{4}</math></u>	£/FF	<u>9.58<math>\frac{1}{4}</math></u>
<u>248.20</u>	\$/Yen	<u>245.10</u>
<u>\$509<math>\frac{1}{2}</math></u>	Gold	<u>\$511<math>\frac{1}{2}</math></u>
<u>1.7330</u>	\$/S.Fc.	<u>1.7020</u>
<u>3.86<math>\frac{3}{4}</math></u>	£/S.Fc.	<u>3.85</u>