

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 30th April 1980

The failed attempt to rescue the American hostages in Iran made the market intensely nervous for a time, but interest rates were probably the more important cause of the dollar's downward drift. Sterling enjoyed mixed fortunes; at 74.1 on Friday and Monday the effective rate was the highest since the index was rebased, but later selling brought it back to 72.6, a net fall of 1.1% in the week.

Sterling ended a lively session in New York on Wednesday night at 2.2745, over 1½ cents above the previous London close, and started around that level on Thursday morning. Middle Eastern and commercial sellers then appeared, and sterling moved back to 2.2560 before hardening to 2.2670 at the close. The London market was just starting up on Friday morning when news came of the unsuccessful attempt to rescue the hostages. Sterling leapt 2 cents and quotations widened sharply in an acutely nervous market; the rate subsequently touched 2.2935 before the market recovered its nerve and allowed sterling to close for the weekend at 2.2780. A weak dollar and active interest in sterling, this time from the Continent, took sterling up to 2.3005 on Monday morning, but the pound then went into retreat, perhaps under the influence of a Middle Eastern order to sell against Swiss francs, closing the period at 2.2550 after 2.2520. Sterling lost ground on the Continent, falling 1½% to 4.06% against the mark, and to 3.75% and 9.48 against the Swiss and French francs. Against the ECU sterling went to 1.62, a premium of 4½% on the notional central rate. The Iranian affair interrupted, if only briefly, the fall in euro-dollar rates. After allowance for technical adjustment, 3-months' deposits closed 1½% lower at 14½%. The discount on forward sterling increased to 2½%, but the covered margin in London's favour narrowed only to ½%.

Inflation, falling interest rates, and doubts about the Federal Reserve's commitment to tight money, got the dollar off to a weak start. It fell sharply on the Iranian news, but there was no real follow-through. Good money supply and better trade figures provided some support, and, although the dollar drifted off as interest rates fell further (with some primes down to 18½%), there was no great substance to the movement. The Fed bought \$50 mn. against marks. The Bundesbank for their part bought \$180 mn. On Wednesday, they rather unexpectedly increased discount and Lombard rates, simultaneously taking steps to increase bank liquidity. The mark strengthened 1½% to 1.8008 (after 1.7873). The French franc (4.2040) remained top of the EMS, 1½% above the lira (847.35) which took the place of the Danish crown (5.6385). The Danes sold \$20 mn. and \$10 mn.-worth of marks and French francs. The EMS was relaxed; indeed, the weakest 2½% currency, the Irish pound, closed only 1½% below the French franc, and no country neared its divergence threshold. The Dutch surprisingly sold \$60 mn. and \$140 mn.-worth of marks; and the Irish sold \$30 mn. Outside the EMS, the Swiss franc prospered to 1.6670 (SF 0.92½ against the mark); the SNB bought \$70 mn. and also bought dollars on the swap to provide their banks with liquidity. The Swedish crown and the Canadian dollar were supported, but Middle Eastern buying helped the yen to strengthen 2½% to 239:10; the Bank of Japan bought \$20 mn.

The Iranian adventure boosted the gold price to \$552 at the fix on Friday morning (and the metal subsequently traded at \$564), but it fell back to fix at \$518 on Wednesday afternoon, a net rise of \$11½ on the week.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>24th April</u>		<u>1st May</u>
<u>2.2620</u>	£/\$	<u>2.2580</u>
<u>73.4</u>	Effective exchange rate index	<u>72.7</u>
<u>11/16% p.a. disc.</u>	Forward 3-months	<u>2½% p.a. disc.</u>
<u>16 1/16%</u>	Euro-\$ 3-months	<u>14½%</u>
<u>¾% pre.</u>	I.B.Comparison	<u>9/16% pre.</u>
<u>1.8195</u>	\$/DM	<u>1.8000</u>
<u>4.11 9/16</u>	£/DM	<u>4.06 7/16</u>
<u>9.58¼</u>	£/FF	<u>9.47¼</u>
<u>245.10</u>	\$/Yen	<u>239.60</u>
<u>\$511½</u>	Gold	<u>\$507</u>
<u>1.7020</u>	\$/S.Fc.	<u>1.6660</u>
<u>3.85</u>	£/S.Fc.	<u>3.76 3/16</u>