

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 7th May 1980

Precipitate falls in US interest rates brought a general weakening of the dollar. Sterling remained somewhat on the sidelines; the ERI rose 0.4 to 73.0 after 73.4.

Sterling opened the period in good demand and in quiet, holiday markets gained  $\frac{1}{2}$  cent against an initially stronger dollar to close at 2.2630 before the weekend. 2.2515 was seen in late trading; but on Monday, when the dollar weakened across the board, the pound rose to 2.2840. As the dollar's downward slide continued, the rate touched 2.2925 on both Tuesday and Wednesday morning but fell back each afternoon, ending the period at 2.2815. Sterling's strength before the holiday weekend resulted in some gain against the Continental currencies, for example to 4.11 $\frac{1}{2}$  against the mark; but as the dollar fell sharply on the Continent after the weekend, sterling's best levels were not held and it closed 5/16% up against the deutschemark at 4.07 $\frac{1}{2}$  and at 3.77 and 9.54 $\frac{1}{2}$  against the Swiss and French francs. Against the ECU sterling strengthened to 1.63, a premium of 5  $\frac{5}{16}$  on the notional central rate. The steep decline in euro-dollar rates continued, 3-months' deposits closing 2 $\frac{1}{2}$ % lower at 11 $\frac{1}{2}$ %, after technical adjustment. The discount on forward sterling widened sharply to 4 15/16% and the covered differential in favour of sterling narrowed to 7/16%.

The dollar's fortunes were dominated by interest rates. Before the weekend, on the strength of a temporary upturn in deposit rates, it gained in most centres, helped probably as well by the increase in the US unemployment figures. Later, however, the reduction in Morgan Guaranty's prime to 17 $\frac{1}{2}$ %, followed by suspension of the 3% surcharge on discount rate, then by a cut in Chase's prime rate to 17% and a fall in market rates generally, led to some heavy selling from the Middle East and Switzerland, initially against the yen in particular. The Fed bought \$85 mn. against marks. The Bundesbank, however, sold \$100 mn. on balance; the mark strengthened by 1 $\frac{1}{2}$  pfennigs to 1.7860. The French franc (4.1852) stayed at the top of the EMS, with the lira (842.50) 1 9/16% lower at the bottom. With no pressure in the system, there was little intervention, except by the Irish who sold \$50 mn. net and the Dutch who, with an eye on their cross-rate against the mark, sold \$125 mn.-worth of marks and \$25 mn. and raised their discount and Lombard rates. The yen was the focus of attention outside the EMS, helped by some expectations that it might prove to be a home for oil money; it rose by 3% to 232.15 (after 229.40) and the Bank of Japan bought \$250 mn. The Swiss franc strengthened to 1.6525. The Swedish crown received \$90 mn. of support, but with their interest rates lagging the US decline, the Bank of Canada were able to add \$80 mn. to reserves.

Gold fell sharply on Thursday on suggestions that the Hunts might liquidate silver holdings, fixing at \$490 in the afternoon after \$480. The setback was short-lived, however, and the price rebounded to the \$505-520 range, closing the period at \$510 for a net fall of \$8 on the week. The IMF auctioned 444,000 ozs. on Wednesday at an average of \$504.90.

8th May 1980.  
TRS

RATES, ETC.

10.15 a.m.

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<u>1st May</u>		<u>8th May</u>
<u>2.2580</u>	£/\$	<u>2.2855</u>
<u>72.7</u>	Effective exchange rate index	<u>73.3</u>
<u>2½% p.a. disc.</u>	Forward 3-months	<u>5 7/16% p.a. disc.</u>
<u>14½%</u>	Euro-\$ 3-months	<u>11½%</u>
<u>9/16% pre.</u>	I.B.Comparison	<u>1/16% pre.</u>
<u>1.8000</u>	\$/DM	<u>1.7947</u>
<u>4.06 7/16</u>	£/DM	<u>4.10 3/16</u>
<u>9.47½</u>	£/FF	<u>9.60 3/16</u>
<u>239.60</u>	\$/Yen	<u>232.75</u>
<u>\$507</u>	Gold	<u>\$511</u>
<u>1.6660</u>	\$/S.Fc.	<u>1.6627</u>
<u>3.76 3/16</u>	£/S.Fc.	<u>3.80</u>