SECRET 1980/20

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 14th May 1980

With interest rates yet again the focus of attention, the dollar had an uneven week, rising before the weekend but subsequently shedding much of the gain. Sterling traded quietly for the most part, closing 0.1 higher in effective terms at 73.1 after 73.3 on Thursday afternoon.

Sterling rose over a cent in New York on Wednesday, closing there at 2.2920 after the Chancellor's rejection of an early cut in MLR. 2.2855 against a generally rather firmer dollar was the first rate on Thursday morning, and sterling traded around that level for most of the day. Cancellation of the Special Deposit recall and extension of the repurchase facility had no noticeable effect. Like other currencies, sterling tended weaker against the dollar on Friday, when light selling from Chicago carried the rate down to 2.2685 late on. The market shrugged off Libyan threats to withhold oil and withdraw balances. The pound met some commercial selling after the weekend, yet more than held its own against a weakening dollar. Light staffing in London and the approach of the Ascension Day holiday on the Continent brought a quiet but firm end to the period, which sterling closed at 2.2886. The late news of a $2 increase in the price of Saudi Arabian oil may have helped. As often, the pound tended to stick closer to the dollar than the Continental currencies: on balance it strengthened, to 4.09¾ against the mark (after 4.11½ on Friday morning) and to 3.80⅝ and 9.58¼ in Switzerland and Paris. Against the ECU sterling went to 1.6321, a premium of 5⅝% on the notional central rate. Eurodollar rates rose before the weekend, but subsequently relapsed. Over the week, 3-months' deposits fell 5/16% to 10 15/16%, after allowance for technical factors. The cost of cover increased sharply to 6 3/16%, however, and the covered differential in favour of sterling turned into a discount of ⅛%.

Anticipation of a good US producer price figure made for a stronger dollar on Thursday. The ½% increase published on Friday had been well discounted but a (temporary) rise in eurodollar deposits, another sharp fall in money supply, and Mr.Volcker's cautionary words about interest rates kept the dollar firm into the weekend. Thereafter, however, eurodollar rates fell; three large banks reduced prime rate by 1% to 16½%; and the dollar went into retreat without losing all the earlier gains. The Fed bought $110 mn. against marks. The Bundesbank for their part bought $30 mn.; on balance their mark eased, to 1.7909. The French franc (4.1870) remained top of a relaxed EMS, 1 13/16% above the lira (844.45) which had been briefly displaced by the Danish crown (5.6063). Intervention by these central banks was negligible. The Dutch however bought back some of the dollars and marks which they had sold last week, and the Irish bought $20 mn. The other EMS currencies traded without feature; the Belgians made another cautious cut in administered interest rates. The Swiss franc (1.6617) had a quiet week, easing against the dollar in line with the mark. A strike-beleaguered Swedish crown remained under pressure, but the yen was perky, strengthening another 2¼% to 226.80 despite stories that the Americans would curb car imports from Japan. The central bank bought $90 mn. The Canadian dolalr also firmed, allowing the Bank of Canada to add $160 mn. to reserves.

Gold rose $15 to $525. Business was rather thin until the Saudi Arabian oil price increase revived interest.

14th May 1980

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RATES, ETC.

10.15 a.m.		10.15 a.m.
8th May		15th May
2.2855	£/$	2.2936
73.3	Effective exchange rate index	73.3
5 7/16% p.a. disc.	Forward 3-months	5 15/16% p.a. disc.
11⅜%	Euro-$ 3-months	10 15/16%
1/16% pre.	I.B.Comparison	3/16% pre.
1.7947	$/DM	1.7920
4.10 3/16	£/DM	4.11
9.60 3/16	£/FF	9.60¼
232.75	$/Yen	227.65
$511	Gold	$515
1.6627	$/S.Fc.	1.6615
3.80	£/S.Fc.	3.81 1/16