

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 21st May 1980

Strong buying interest on Wednesday caused sterling's effective index to rise a whole point in the period to 74.1, equal to the highest recorded since the index was rebased. The dollar turned in a mixed performance, closing rather lower in most centres; interest rates fell again.

A scramble on the Chicago IMM took sterling up to 2.3055 on Wednesday night, but the start on Thursday was more subdued at 2.2930. The Prime Minister's rejection of an early cut in MLR enlivened a torpid Ascension Day market, and sterling rose to 2.3040 in late trading before retreating to 2.2775 in the wake of the RPI around Friday lunchtime. The trade figures published that afternoon were largely ignored, however, and sterling closed for the weekend at 2.2855. Trading on Monday and Tuesday was rather featureless - some professional buying from Eastern Europe, modest commercial selling, an occasional foray from the Middle East - but higher oil prices and another fall in dollar interest rates, brought widespread and aggressive buying of sterling on Wednesday. The rate touched 2.3305, the highest since last July, before closing the period at 2.3265, a net rise of $3\frac{1}{2}$ cents (In late trading the pound rose to 2.3330.) Sterling was steady on the Continent at first, but spurted ahead on Wednesday: it closed $1\frac{1}{2}$ stronger at 4.16 against the mark, and at 3.86 $\frac{1}{2}$ and 9.68 $\frac{1}{2}$ in Switzerland and Paris. Against the ECU sterling advanced to 1.6520, a premium of $6\frac{1}{2}$ on the notional central rate. Euro-dollars were rather variable. 3-months' deposits were quoted at 11 $\frac{13}{16}$ % on Monday morning, but they closed the period at 10 $\frac{11}{16}$ % after allowance for technical factors, a net fall of $7\frac{1}{16}$ % on the week. The cost of cover was unchanged at $6\frac{3}{16}$ %, and sterling went to an intrinsic premium of $\frac{1}{8}$ %.

Considering how volatile interest rates were, and the steep rise in US money supply published late on Friday (after several weeks of decline), the dollar traded comparatively steadily on the Continent. Morgan Guaranty became the first large bank to declare a 16% prime rate. The Fed bought just \$50 mn. against marks; they seemed content to let interest rates fall. The Bundesbank sold \$40 mn. to soak up the proceeds of foreign DM issues: their mark strengthened a touch to 1.7882. The French franc (4.1645) enjoyed mixed fortunes, being sold before the weekend but later coming into renewed favour. It remained top of the EMS, $2\frac{1}{4}$ % above the lira (842.40). The central bank bought \$20 mn. The Dutch, whose currency bettered Dfl 1.10 against the mark, bought \$5 mn. and \$20 mn. worth of marks; and the Irish bought \$20 mn. The Belgian franc remained comfortable. No EMS currency was markedly divergent. Elsewhere, the Swiss franc (1.6612) kept step with the mark. The Swedish crown was supported with another \$190 mn. (making nearly \$500 mn. so far this month), but the Canadian dollar and the yen made hay. The former strengthened sharply after the Quebec vote, enabling the Bank of Canada to add \$220 mn. net to reserves. The fall of the Government gave the yen a temporary shock - 231.80 was recorded when the news broke - but it later recovered sharply to 223.30, seemingly on the expectation of a 220 rate voiced by Japanese monetary officials, before closing $1\frac{1}{2}$ stronger at 224.55. The Bank of Japan bought \$330 mn.

Gold traded comparatively narrowly, although \$500 was tested. Over the week the price fell \$11 $\frac{1}{2}$ to \$513.

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

<u>15th May</u>		<u>22nd May</u>
<u>2.2936</u>	£/\$	<u>2.3330</u>
<u>73.3</u>	Effective exchange rate index	<u>74.2</u>
<u>5 15/16% p.a. disc.</u>	Forward 3-months	<u>6 13/16% p.a. disc.</u>
<u>10 15/16%</u>	Euro-\$ 3-months	<u>10 1/16%</u>
<u>3/16% pre.</u>	I.B.Comparison	<u>3/16% pre.</u>
<u>1.7920</u>	\$/DM	<u>1.7879</u>
<u>4.11</u>	£/DM	<u>4.17½</u>
<u>9.60¼</u>	£/FF	<u>9.71¼</u>
<u>227.65</u>	\$/Yen	<u>224.25</u>
<u>\$515</u>	Gold	<u>\$508</u>
<u>1.6615</u>	\$/S.Fc.	<u>1.6612</u>
<u>3.81 1/16</u>	£/S.Fc.	<u>3.87½</u>