

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 28th May 1980

The widening differential between UK and US interest rates led to strong demand for sterling throughout most of the period. The ERI rose to 74.6, after touching 74.9 on Tuesday, the highest level since the index was rebased. Although it closed above its worst levels, the dollar weakened in all centres and required sizeable support.

Sterling was quiet in New York on Wednesday night, closing at 2.3305 and it opened at 2.3257 on Thursday morning. Very early, strong buying interest from the continent appeared and carried the rate up to 2.3387 before some profit taking occurred; the rate fell back to 2.3170 but recovered on buying from the Middle East and US. With UK interest rates remaining firm in the face of the relaxation of credit restrictions by the Fed, and oil price considerations to the fore, substantial buying of sterling was seen in the Far East on Monday, when both London and New York were closed, and Tuesday when the rate touched 2.3785, the highest level for five years. Although higher euro-dollar rates and some profit taking caused a reaction on Wednesday afternoon, sterling ended the period firm, closing at 2.3563, for a gain of 3 cents on the week. Sterling strengthened also against the continental currencies, rising to 4.17½ against the mark and to 3.88½ and 9.72½ in Switzerland and France. Against the ECU sterling went to 1.6538, a premium of 6½% on the notional central rate. Eurodollar rates fell by a further ¼% in the week, three-month deposits closing at 9 13/16%. The cost of cover rose to 6½% and the intrinsic premium in favour of sterling widened to ¼%.

Falling interest rates and the easing by the Fed of a large part of the credit restraint programme introduced on 14th March led to the dollar coming under pressure in all major centres. Prime rates came down by up to 2% with Morgan Guaranty the first major bank to go a 14% prime. The Fed gave active support, buying \$657 mn. against marks. The Bundesbank bought \$180 mn. and the mark improved to 1.7735. The Bank of France bought \$67 mn. and the French franc (4.1262) remained at the top of a relaxed EMS, 1½% above the lira (832.75). The Dutch bought \$40 mn. and DM 64 mn. and kept their currency at DF1 1.10 to the mark. The yen was the main subject of attention outside the EMS and on Monday it strengthened to close at 218.30 in Tokyo, despite large scale intervention by the Bank of Japan who bought \$750 mn. that day and a total of \$1.4 bn. during the week. It subsequently fell back partly on rumours of a forthcoming reduction in discount rate and closed the period at 223.52, ½% up on the week. Elsewhere, the Swiss franc (1.6497) remained in line with the mark and the National Bank bought \$30 mn. The Swedish crown received further support, totalling \$174 mn., but the Canadian dollar remained firm and the Bank of Canada bought \$69 mn.

Gold strengthened over the period as the silver price recovered. After testing \$499 on Thursday afternoon, it improved steadily to touch \$527 on Wednesday, fixing at \$526½ for a rise of \$13 on the week.

28th May 1980

TRS

RATES, ETC.

10.15 a.m.

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|---------------------------|-------------------------------|---------------------------|
| <u>22nd May</u> | | <u>29th May</u> |
| <u>2.3330</u> | £/\$ | <u>2.3470</u> |
| <u>74.2</u> | Effective exchange rate index | <u>74.4</u> |
| <u>6 13/16 p.a. disc.</u> | Forward 3-months | <u>6 11/16 p.a. disc.</u> |
| <u>10 1/16%</u> | Euro-\$ 3-months | <u>9 13/16%</u> |
| <u>3/16% pre.</u> | I.B. Comparison | <u>9/16% pre.</u> |
| <u>1.7879</u> | \$/DM | <u>1.7779</u> |
| <u>4.17½</u> | £/DM | <u>4.17½</u> |
| <u>9.71½</u> | £/FF | <u>9.70½</u> |
| <u>224.25</u> | \$/Yen | <u>223.62</u> |
| <u>\$508</u> | Gold | <u>521.50</u> |
| <u>1.6612</u> | \$/S.Fc. | <u>1.6545</u> |
| <u>3.87½</u> | £/S.Fc. | <u>3.88½</u> |