

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 4th June 1980

The role high UK interest rates have played in the recent strength of the pound was revealed on Tuesday when fears of a decline led to very heavy selling of sterling. The ERI fell to 72.9 before recovering to 73.4, a loss of 1.2 points over the period. The dollar had an uneven week, but, overall, was little changed.

Following a \$2 a barrel increase in North Sea oil prices, sterling strengthened in New York on Wednesday night to close at 2.3637. It opened on Thursday at 2.3527 and eased gradually on selling out of Europe and by the IMM in Chicago overnight and early Friday afternoon. However, publication later that day of the US leading indicators index for April, showing a record decline of 4.8%, brought a temporary change in sentiment and, as the dollar weakened in all centres, sterling recovered to touch 2.3580, before falling back to 2.3450 at the close. With good demand in the Far East, sterling rose to 2.3595 early on Monday but sizeable commercial selling developed and the rate again fell back. Against a background of firm euro-dollar rates, the Prime Minister's remarks in the House of Commons on Tuesday, that settlement of the EEC budget issue should lead to lower UK interest rates, set off a wave of very heavy selling, particularly out of New York. In half an hour sterling fell by 4½ cents to 2.29 and it touched 2.2880 that night in New York. Although there was some recovery on Wednesday, the market remained nervous and sterling ended the period at 2.3205, a fall of 3½ cents on the week. Sterling weakened sharply on the Continent as well, falling by 1½% to 4.11½ against the DM and to 3.81½ and 9.59½ against the Swiss and French francs. Against the ECU sterling went to 1.6378 a premium of 5½% on the notional central rate. Euro-dollar rates rose by 3/16% on the week, three-months' deposits closing at 10½%, after allowance for technical factors. The cost of cover fell to 6½% and the intrinsic premium in favour of sterling remained unchanged at ¼%.

Although the dollar fell sharply on Friday afternoon on the leading indicator figure, on balance, it was little changed over the week as a whole. The 1% cut in the Fed's discount rate, when the market had been looking for a 2% fall, and the publication of the good US trade figures for April, both helped the dollar, as did higher euro-dollar rates after the weekend. Further prime rate reductions, to 13%, by Chase and Morgan Guaranty on Wednesday afternoon had little impact. There was little intervention. The Fed bought \$22 mn. against marks. The mark was almost unchanged at 1.7725. The French franc (4.1350) remained top of the EMS, 1½% above the lira (834.25). The Dutch bought DM 80 mn., the Danes \$20 mn. (net) and the Irish \$16 mn. (net). Elsewhere, the Swiss franc (1.6457) firmed to 0.92½ against the mark and the National Bank bought \$20 mn., the Swedish crown received further support totalling \$115 mn. and the Canadians were able to buy a further \$63 mn. The yen (221.32) gained a further 1% over the week.

Gold was an active market. News of the sabotage attacks on the oil plants in South Africa caused the price to leap by \$40 on Monday. Although the highest levels were not at first maintained, good demand prevented the price falling through \$550 and it ended the period firm, fixing at \$571½ on Wednesday afternoon, for a rise of \$45 over the week.

RATES, ETC.

10.15 a.m.

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<u>29th May</u>		<u>5th June</u>
<u>2.3470</u>	£/\$	<u>2.3260</u>
<u>74.4</u>	Effective exchange rate index	<u>73.60</u>
<u>6 11/16 p.a. disc.</u>	Forward 3-months	<u>6<math>\frac{5}{8}</math> p.a. disc.</u>
<u>9 13/16%</u>	Euro-\$ 3-months	<u>9 13/16%</u>
<u>9/16% pre.</u>	I.B.Comparison	<u><math>\frac{1}{2}</math>% pre.</u>
<u>1.7779</u>	\$/DM	<u>1.7750</u>
<u>4.17<math>\frac{1}{2}</math></u>	£/DM	<u>4.12<math>\frac{1}{4}</math></u>
<u>9.70<math>\frac{1}{2}</math></u>	£/FF	<u>9.61<math>\frac{1}{2}</math></u>
<u>223.62</u>	\$/Yen	<u>221.40</u>
<u>521.50</u>	Gold	<u>574</u>
<u>1.6545</u>	\$/S.Fc.	<u>1.6477</u>
<u>3.88<math>\frac{1}{2}</math></u>	£/S.Fc.	<u>3.83<math>\frac{1}{2}</math></u>