FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 11th June 1980

Interest rates and oil price expectations again dominated the markets. On Tuesday rumours of an early reduction in MLR set off some heavy selling of sterling but the rate later recovered, helped by news from the OPEC meeting in Algiers. The ERI rose from 73.4 to 73.7 after touching 72.9 (unpublished). Falling euro-dollar rates weakened the dollar and sizeable support was provided.

Sterling was quiet and featureless before the weekend with some continental centres closed on Thursday and the Singapore Forex meeting in session. After ending Wednesday night in New York at 2.3252, sterling opened on Thursday in London at 2.3245 and traded in a fairly narrow range to close at 2.3311 on Friday evening. On Monday morning, with strong demand in the Far East and lower euro-dollar rates, sterling rose sharply to touch 2.3563 but the best levels were not held and the rate eased back. Rumours early on Tuesday morning that the banking figures to be released later that day would justify an immediate reduction in MLR led to some heavy selling of sterling, mainly out of Europe. In hectic trading the pound fell 2½ cents to 2.3180, before recovering after the release of the figures to around 2.33½, helped by reports from the OPEC meeting in Algiers that a further oil price rise had been agreed. With little subsequent movement in rates, sterling ended the period fairly firm closing at 2.3346 for a rise of 1⅜ cents over the week. Sterling's performance on the continent was somewhat mixed: it strengthened slightly against the DM and French franc, to 4.12⅛ and 9.60½, but eased to 3.80½ against the Swiss franc. Against the ECU sterling went to a premium of 1.6404 on the notional central rate. Euro-dollar rates fell by ⅞% on the week, 3-months' deposits closing at 9¼% after allowance for technical factors. With the cost of cover rising to 7 7/16%, and inter-bank sterling falling by ½%, the covered differential in favour of sterling turned into a discount of 5/16%.

Easier euro-dollar rates and a series of gloomy economic indicators caused the dollar to weaken in all centres. Dealers were concerned that increasing evidence of the depth of the US recession might lead the administration to shift the emphasis of policy away from fighting inflation to curbing the growing level of unemployment. News on Wednesday afternoon that a major bank (First Boston) had moved to a 12% prime came too late to have any significant impact. The Fed provided sizeable support, buying a total of $360 mn. against marks and Swiss and French francs. The mark strengthened to 1.7653 and the Bundesbank bought $31 mn. The Bank of France bought $5 mn. and the French franc (4.1140) remained at the top of the EMS, 2¼% above the lira (833). Rumours of an impending devaluation put the lira under heavy pressure at times during the week and the Bank of Italy provided its first support for several months, selling $520 mn. The Dutch bought $10 mn. and $57 mn.-worth of marks and the Irish sold $12 mn. net. Elsewhere, the Swiss franc (1.63) was very firm, rising to 0.92¾ against the mark and the National Bank bought $142 mn. The yen was again in strong demand rising by 1½% over the week to 217.72 despite purchases of nearly $600 mn. by the Bank of Japan. The Swedes continued to support the crown, selling $157 mn. but the Bank of Canada was able to add $258 mn. to reserves.

Gold was volatile, trading between $574 and $633. The first fixing was at $581½ but strong demand in the Far East carried the price through $600 on Monday morning when it fixed at $627½. Widespread selling then commenced and the price fell sharply fixing at $596 on Wednesday afternoon for a rise of $25 over the week.

11th June 1980
HRS

RATES, ETC.

10.15 a.m.		10.15 a.m.
5th June		12th June
2.3260	£/$	2.3430
73.60	Effective exchange rate index	73.9
6⅝ p.a. disc.	Forward 3-months	7½ p.a. disc.
9 13/16%	Euro-$ 3-months	9⅛%
⅛% pre.	I.B.Comparison	⅛% disc.
1.7750	$/DM	1.7641
4.12⅞	£/DM	4.13⅜
9.61½	£/FF	9.62¾
221.40	$/Yen	217.65
574	Gold	595
1.6477	$/S.Fc.	1.6290
3.83¼	£/S.Fc.	3.81⅝