

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 18th June 1980

Concern about a possible downturn in UK interest rates outweighed the beneficial impact of the good May trade figures and sterling eased, the ERI slipping by 0.3 to 73.4. The dollar received some support before the weekend but was little changed over the week as a whole.

Sterling was in strong demand in New York on Wednesday night and rose by over a cent to close at 2.3475. It opened in London on Thursday morning at 2.3435 and remained around this level until a re-run of rumours of a reduction in MLR provoked some selling. On Friday, against a much weaker dollar, early business carried the pound up to 2.3490 but, again, the best levels were not held and it drifted down to finish at 2.3425. After the weekend, against a background of higher euro-dollar rates, sterling had a generally softer tone, although the publication of the good trade figures for May gave a temporary boost on Monday afternoon. With concern about a possible reduction in interest rates continuing to over-hang the market, sterling traded somewhat uneasily, falling to 2.3253 on Tuesday afternoon, on selling from New York. Thereafter, in quiet markets, the rate moved fairly narrowly around 2.33, ending the period at 2.3315. Sterling weakened a little on the continent as well, falling by $\frac{1}{2}$ % against the deutschemark to 4.11 and by $\frac{1}{2}$ % against the Swiss and French francs to 3.78 $\frac{1}{2}$ and 9.56 $\frac{1}{2}$. Against the ECU sterling was at a premium of 1.6343 on the notional central rate. Euro-dollar rates eased by 3/16% over the week, three-months' deposit closing at 9 1/16% after allowance for technical factors. With the cost of cover narrowing to 7 5/16% the covered differential against sterling turned into a premium of 1/16%.

The 1% reduction in the Fed's discount rate to 11%, the move by more banks to a 12% prime and the publication of Henry Kaufman's view that the US recession was likely to be deeper than he had previously suggested caused the dollar to weaken sharply before the weekend. However, the increase in the money supply and the absence of any further decline in US domestic rates hardened euro-dollar rates on Monday and the dollar recovered to show little net change over the week. The Fed provided some support before the weekend, buying a total of \$154mn. against marks and Swiss francs. The Swiss and Germans bought \$37mn. and \$28mn. respectively and the Swiss franc (1.6247) firmed to 0.92 $\frac{1}{2}$ against the mark (1.7632). The Bank of Italy supported the lira (834.02) by sales of a further \$317mn. but the EMS widened, with the Irish punt (2.1330) replacing the French franc (4.1017) at the top, 2 11/16% above the lira. The Dutch bought \$50mn. and the Danes \$8mn. Elsewhere, the yen (216.05) strengthened by $\frac{1}{2}$ % over the week and the Bank of Japan bought almost \$500mn. Although their long-running dock strike ended, the Swedes again supported the crown selling \$112mn., but the Canadians were able to buy \$8mn. net.

Except on Friday when business was brisk, gold was a quiet market. The first fixing was \$588 $\frac{1}{2}$ but the price jumped to \$609 $\frac{1}{2}$ on Friday morning when the dollar was under pressure. After the weekend the metal traded in a fairly narrow range either side of \$600, fixing at \$602 $\frac{1}{2}$ on Wednesday afternoon for a rise of \$6 $\frac{1}{2}$ on the week.

18th June 1980.

TRS HO-2

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

<u>12th June</u>		<u>19th June</u>
<u>2.3430</u>	£/\$	<u>2.3206</u>
<u>73.9</u>	Effective exchange rate index	<u>73.3</u>
<u>7½ p.a. disc.</u>	Forward 3-months	<u>7 1/16 p.a. disc.</u>
<u>9¼%</u>	Euro-\$ 3-months	<u>9 5/16%</u>
<u>¼% disc.</u>	I.B. Comparison	<u>1/16% pre.</u>
<u>1.7641</u>	\$/DM	<u>1.7712</u>
<u>4.13¼</u>	£/DM	<u>4.11</u>
<u>9.62¼</u>	£/FF	<u>9.55½</u>
<u>217.65</u>	\$/Yen	<u>216.57</u>
<u>595</u>	Gold	<u>\$598</u>
<u>1.6290</u>	\$/S.Fc.	<u>1.6355</u>
<u>3.81½</u>	£/S.Fc.	<u>3.79½</u>