

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 25th June 1980

While continuing to react primarily to changes in interest rate expectations, markets were uncharacteristically quiet and stable throughout the week. For the most part sterling traded in a narrow range, the ERI improving by 0.3 to 73.7. With no sign of any further reduction in US interest rates, the dollar firmed a little and received only minimal support.

Sterling ended a quiet session in New York on Wednesday night at 2.3320. Selling in the Far East took the rate down to 2.3260 at the London opening on Thursday and the downward movement continued to 2.3165 when some European banks, apprehensive about a possible cut in MLR, also sold pounds. However, the absence of any change in MLR, and a consequent firming of sterling inter-bank rates, together with some buying from New York on Friday, caused sterling to firm, to close at 2.3380 before the weekend. Strong demand for sterling from oil producers took the rate to 2.3437 early on Monday but, as these orders were absorbed, the rate drifted back. On Tuesday and Wednesday, in exceptionally quiet markets, sterling traded narrowly in the range 2.33-2.34, ending the period at 2.3350, half a cent up on the week. The pound firmed a little on the Continent as well, rising by $\frac{1}{2}\%$ against the mark to 4.13, by 1% against the Swiss franc to 3.82 $\frac{1}{2}$ and by $\frac{1}{4}\%$ against the French franc to 9.58 $\frac{1}{2}$. Against the ECU sterling went to 1.6404, a premium of 6% on the notional central rate. Euro-dollar rates rose by $\frac{1}{4}\%$ over the week, three-months' deposits closing at 9 $\frac{1}{2}\%$ after allowance for technical factors. Although the cost of cover widened to 7 $\frac{1}{2}\%$, the rise in sterling inter-bank rates meant that the covered differential in favour of sterling increased to $\frac{1}{4}\%$.

The dollar traded very steadily throughout the week, helped by firmer Euro-dollar rates. News on Monday of the $\frac{1}{2}\%$ cut in Morgan Guaranty's prime to 11 $\frac{1}{2}\%$ and the publication on Tuesday of the consumer price index for May, which showed a rise of 0.9%, slightly higher than generally expected, both failed to disturb the calm. No support was required from the Fed and the mark eased to 1.7686. The EMS widened to 3% and the French franc (4.1045) regained from the Irish punt (2.1160) its customary place at the top. The Bank of France bought \$30mn. and the Irish sold \$26mn. The lira remained at the bottom of the arrangement, amidst widespread rumours of devaluation, and the Bank of Italy sold a further \$700mn., bringing total support so far this month to \$1.5bn. Elsewhere, the Swiss franc (1.6367) eased to 0.92 $\frac{1}{2}$ against the mark. The yen fell by 1% to 218.05 and the Bank of Japan bought \$17mn. The level of support provided in Sweden was reduced to \$50mn. and the Canadians bought \$7mn. (net).

For most of the week gold continued to trade around the \$600 level but the announcement on Tuesday of the large Federal budget deficit for May caused the price to jump \$15 in New York and the new higher level was sustained in London. The final fixing was at \$622 $\frac{1}{2}$, for a rise of \$20 on the week.

25th June 1980.

TRS

RATES, ETC.

10.15 a.m.

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<u>19th June</u>		<u>26th June</u>
<u>2.3206</u>	£/\$	<u>2.3300</u>
<u>73.3</u>	Effective exchange rate index	<u>73.6</u>
<u>7 1/16 p.a. disc.</u>	Forward 3-months	<u>7 5/16% p.a. disc.</u>
<u>9 5/16%</u>	Euro-\$ 3-months	<u>9 11/16%</u>
<u>1/16% pre.</u>	I.B.Comparison	<u>1/16% disc.</u>
<u>1.7712</u>	\$/DM	<u>1.7702</u>
<u>4.11</u>	£/DM	<u>4.12½</u>
<u>9.55¼</u>	£/FF	<u>9.57¾</u>
<u>216.57</u>	\$/Yen	<u>218.22</u>
<u>\$598</u>	Gold	<u>\$624</u>
<u>1.6355</u>	\$/S.Fc.	<u>1.6370</u>
<u>3.79½</u>	£/S.Fc.	<u>3.81¼</u>