SECRET 1980/27

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 2nd July 1980

In relatively quiet markets, balance of payments considerations joined interest rates as a major influence during the week. The firmness of sterling was the main feature and the ERI rose by 0.7 to 74.4. The dollar was hit by poor trade figures.

Sterling closed firm in New York on Wednesday night at 2.3385 but was sold down in the Far East, opening in London on Thursday at 2.3315. Further selling from the Middle East and Europe in advance of the MLR announcement took sterling to 2.3280 but the rate recovered quickly in the afternoon, as short positions taken out earlier were covered. With strong demand from New York the rate broke through the psychologically important 2.35 barrier on Friday afternoon before some selling on oil company account caused it to fall back to 2.3495 immediately before the weekend. Against a weak dollar and with inter-bank rates very firm, sterling met good commercial demand on Monday from European banks and the rate was carried up through 2.36, touching 2.3635, although the higher levels were not held. However, further buying pressure from New York took the rate to 2.3655 on Tuesday night and to 2.3650 again on Wednesday morning when a bout of pre-MLR jitters caused a set-back. Sterling fell to 2.3550 before recovering to 2.3606 at the close, a rise of 2½ cents on the week. Sterling strengthened a little on the Continent as well, gaining ½% against the deutschemark and French franc, to 4.14¾ and 9.62½ respectively, but was unchanged against the Swiss franc at 3.82. Against the ECU sterling went to 1.6447, a premium of 6½% on the notional central rate. Euro-dollar rates rose by ⅛% over the week, three-months' deposits closing at 9½%. The cost of cover narrowed to 7% and the covered differential in favour of sterling widened to ⅜%.

The impact on the dollar of the large trade deficit for May was initially mitigated by the effect of higher Euro-dollar rates following the unexpectedly large increases in the money supply and the absence of any further domestic easing by the Fed. Although the dollar weakened generally only modest support was required. The Fed bought $97mn. against deutschemarks, the Bundesbank bought $12mn. and the mark strengthened to 1.7572. The lira (842.05) continued under very heavy pressure and although the Bank of Italy provided a further $1bn. by way of support the EMS widened to 4½% with the French franc (4.0765) remaining at the top, and the Bank of France buying $49mn. The Danes bought $36mn. and the Irish $6mn. Elsewhere, the Swiss franc (1.6180) firmed to 0.92 against the deutschemark and the Swiss swapped in $675mn. for a week to ease end-half year pressures. In contrast to the other major currencies, the yen weakened slightly to 218.45, as fears grew about the impact on the economy of the US recession. The Swedish crown continued to receive support ($149mn.) but the Canadian dollar was very firm and the Bank of Canada was able to add $176mn. to reserves.

Against the back-ground of a weakening dollar and falling US bond markets, gold was the subject of much investment and speculative interest. The first fixing was at $623¼ but in active trading after the weekend, the price rose rapidly to fix at $672 on Wednesday morning. Following some profit-taking the final fixing was at $661½, a rise of $40 over the week.

2nd July 1980.

TRS

RATES, ETC.

10.15 a.m.		10.15 a.m.
26th June		3rd July
2.3300	£/$	2.3610
73.6	Effective exchange rate index	74.4
7 5/16% p.a.disc	Forward 3-months	7% p.a.disc
9 11/16%	Euro-$ 3-months	9 7/16%
1/16% disc	I.B.Comparison	3/8% pre.
1.7702	$/DM	1.7573
4.12½	£/DM	4.14 7/8
9.57 3/8	£/FF	9.62
218.22	$/Yen	218.80
$624	Gold	$664
1.6370	$/S.Fc.	1.6180
3.81 3/8	£/S.Fc.	3.82