FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 9th July 1980

Markets reacted badly to the phasing out of the Fed's March 14th credit control measures and the dollar weakened sharply. With the underlying tone firm, sterling shrugged off the 1% cut in MLR, going to a five-year high against the dollar. The ERI was unchanged at 74.4, after falling to 73.9 on Thursday.

Sterling was firm in New York on Wednesday night, closing at 2.36, and it continued to trade around that level on Thursday morning before the MLR announcement, after opening at 2.3567. Although the 1% reduction took many overseas banks, in particular, by surprise and the rate dropped quickly to 2.3375, with widespread commercial selling, it recovered almost as swiftly as good demand appeared at the 2.34 level, with an oil producer and Swiss banks amongst those buying sterling. The rate rose fairly steadily to close at 2.3455 on Thursday and at 2.3540 before the week-end. Against a rapidly weakening dollar, sterling strengthened further on Monday, helped by the publication of the wholesale prices index for June, and it went through 2.38 that night in New York. On Tuesday, as the dollar's slide continued, sterling went to 2.3850, the highest level for five years, before some profit-taking occurred. The rate slipped back to 2.3710 but recovered to end the period at 2.3765. Sterling lost ground on the Continent, falling by 1¼% against the Swiss franc to 3.77⅝ and by ½% against the deutschemark and French franc to 4.13 and 9.58¼ respectively. Against the ECU sterling went to 1.6418, a premium of 6⅛% on the notional central rate. Euro-dollar rates eased by ¼% over the week, three months deposits closing at 9¼% after allowance for technical factors. With the cost of cover falling to 6 5/16% and lower inter-bank rates, the covered differential in favour of sterling narrowed to 3/16%.

The abolition of the Fed's credit control measures on Thursday and the unexpected fall in the money supply figures announced on Monday (Friday was Independence Day holiday) caused the dollar to weaken sharply in all centres, as dealers anticipated lower US interest rates. Although the Fed provided sizeable support for the dollar, and its tactics in the US domestic market on Tuesday helped by suggesting that no easing of monetary policy was likely, the dollar nevertheless finished at, or close to, its lowest levels for nearly six months in most centres. The Fed bought $617 mn., principally against marks. The Bundesbank bought $63 mn. and the mark strengthened to 1.7386. The French franc (4.0352) was very firm at the top of the EMS and the Bank of France bought $79 mn. The lira (828.87) remained at the bottom but the band narrowed to 3 11/16% and the Bank of Italy spent only $75 mn. in support. The Danes bought $100 mn. and the Dutch $25 mn. Elsewhere, the Swiss franc (1.59) was very firm rising to 0.91½ against the mark, the National Bank buying $160 mn. The yen continued to lag behind the other major currencies closing almost unchanged at 218.17. The Swedish crown received $179 mn. by way of support and the Canadians bought a net $49 mn.

With the dollar under pressure, gold continued in strong demand. The escalation of fighting in Afghanistan saw the price bid up to $688¼ at the morning fixing on Tuesday but it fell back on profit-taking to $671 on Wednesday afternoon, for a rise of $10 over the week.

9th July 1980.
T.R.S.

RATES, ETC.

10.15 a.m.		10.15 a.m.
3rd July		10th July
2.3610	£/$	2.3730
74.4	Effective exchange rate index	74.3
7% p.a. disc	Forward 3-months	6⅜% p.a.disc
9 7/16%	Euro-$ 3-months	9¼%
3/8% pre.	I.B.Comparison	⅛% pre.
1.7573	$/DM	1.7373
4.14 7/8	£/DM	4.12¼
9.62	£/FF	9.56⅞
218.80	$/Yen	217.75
$664	Gold	$665
1.6180	$/S.Fc.	1.5900
3.82	£/S.Fc.	3.77¼