

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 3rd September 1980

Interest rates called the tune this week. As Fed intervention signalled the end to the recent rise in US rates the dollar weakened sharply. Sterling forged ahead, the ERI rising by 0.3 from its previous high to a record 76.5, but it was looking a little softer by the close.

Although initially subject to some profit-taking, sterling was in good demand on both commercial and professional account throughout most of the week. Buying was seen from a variety of quarters, including some OPEC countries and Europe. Having previously baulked at the 2.40 barrier, sterling sailed through it on Friday night and climbed on Tuesday to a new five-year high against the dollar of 2.4230. After closing in New York on Wednesday night at 2.3965, sterling opened in London on Thursday at 2.3922 and although some selling out of the Middle East took the rate down to 2.3865 during the afternoon, the lost ground was soon recovered. On Friday night buying by the IMM in Chicago drove the rate up through 2.40 and after the weekend, sterling continued to strengthen against a weakening dollar, moving to trade mostly in the range 2.41-2.42, with some profit-taking seen when the rate tried to move higher. Late on Wednesday, however, fears that MLR might be reduced the following day caused some selling and sterling ended the period a little soft at 2.4157, for a rise of 2½ cents on the week. Recent gains against the continental currencies were not held and the pound lost ¼ against the deutschemark (4.29%) and ⅓ against the Swiss franc (3.94%) but was almost unchanged against the French franc (9.99%). Against the ECU, sterling went to 1.6991, a premium 9½ on the notional central rate. Three-months' Euro-dollars fell by ½ to 11 7/16% but with the cost of cover easing to 4 11/16% the covered differential in favour of the pound widened to 5/16%.

Further evidence (in the form of a record 4.6% increase in the US index of leading indicators) that the US economy might be moving out of recession was off-set by Fed action in the domestic market to halt the recent rise in the Federal Funds rate. The upward trend in US interest rates was reversed and the dollar weakened in all centres. The Fed bought \$13mn. against deutschemarks and the mark strengthened to 1.7784. The florin (1.9348) consolidated its position at the top of the EMS, 3 11/16% above the lira (846.95) with the Bank of Italy selling \$240mn. The Belgian franc (26.53) moved to the bottom of the 2½ band and the National Bank provided \$120mn. in support. Outside the EMS, the Swiss franc firmed to 1.6315 and the National Bank bought \$25mp. The improvement in the yen (247.06) continued and the Bank of Japan bought \$7mn. The Swedes were, as usual, supporting the crown selling \$240mn. but the Norwegians were able to buy \$60mn. and the Canadians \$50mn.

Gold was mostly a very quiet market with the price again moving fairly narrowly around \$630. The prospects for a settlement in Poland provoked some selling on Monday, when the metal fixed at \$626½ in the morning, but it moved up quickly on Tuesday against a weakening dollar to \$640 in the afternoon. The final fixing was at \$636½, \$2 up on the week.

3rd September 1980.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>28th August</u>		<u>4th September</u>
<u>2.3922</u>	£/\$	<u>2.4094</u>
<u>76.1</u>	Effective exchange rate index	<u>76.2</u>
<u>4 9/16% p.a. disc.</u>	Forward 3-months	<u>4 11/16% p.a. disc.</u>
<u>11½%</u>	Euro-\$ 3-months	<u>11½%</u>
<u>5/16% pre.</u>	I.B. Comparison	<u>¾% pre.</u>
<u>1.7933</u>	\$/DM	<u>1.7750</u>
<u>4.29</u>	£/DM	<u>4.27¾</u>
<u>9.98¾</u>	£/FF	<u>9.94¼</u>
<u>218.47</u>	\$/Yen	<u>216.85</u>
<u>\$633</u>	Gold	<u>\$637</u>
<u>1.6532</u>	\$/S.Fc.	<u>1.6255</u>
<u>3.95½</u>	£/S.Fc.	<u>3.91¾</u>