

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 10 September 1980

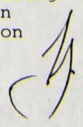
A change in expectations about UK interest rates sparked off the most unsettled period seen in the exchanges for many weeks. Fears that the estimated underlying growth of 1-2% in EM3 might presage an early reduction in MLR caused sterling to weaken sharply. The ERI fell from 76.5 to 76.0, after 75.8 at the opening on Wednesday.

Sterling both opened and closed the week under some pressure from professional selling, although for much of the intervening period it was quietly firm. In contrast to recent weeks, however, there were few commercial buyers, particularly at the higher levels; much of the demand for sterling was on official account. After closing in New York on Wednesday night at 2.4115, sterling began in London at 2.4075 on Thursday morning but was sold down in early business, falling to 2.4055 before a recovery set in. The announcement of an unchanged MLR gave impetus to the rally and during the afternoon the rate went to a new 5-year high against the dollar of 2.4235, before closing the day at 2.42. Thereafter, the rate traded quietly in the range 2.41 - 2.42½ against a slightly firmer dollar until the publication of the banking statistics on Tuesday afternoon. Their release led to fears that a cut in MLR might follow and in a nervous market, rife with rumour, sterling dropped quickly. As a large number of banks sought to reduce their exposure to sterling the rate fell steadily, to 2.4010 at the close that night and to 2.3955 on Wednesday morning. As buyers appeared again at the lower levels the rate stabilised to close at 2.4014, a fall of 1½ cents on the week. The pound lost ground on the continent as well, falling by ½% against the mark to 4.27½, by ¼% against the Swiss franc to 3.91½ and by ¼% against the French franc to 9.93½. Eurodollars were a little firmer, 3 months deposits closing at 11½% and the cost of cover fell to 4 1/16%. With sterling interbank rates 13/16% lower at 15 5/8%, the covered differential in favour of sterling turned into an intrinsic discount of 1/16%.

The announcement on Friday of a fall in the number of unemployed, together with a 1.5% increase in wholesale prices, provided further evidence that the US recession might be ending with inflation remaining at a high level. Led by Citibank on Friday, prime rates were increased by ½% to 12% and the dollar firmed a little, the mark closing at 1.7787 with the Bundesbank buying \$18 mn. EMS was relaxed with the florin (1.9348) at the top throughout, 3½% above the lira (846.15). The Nederlandsche Bank bought \$100 mn. but the Italians did not intervene. The French franc closed at 4.1362 and although the Belgian franc (28.54) remained at the bottom of the 2½% band, no support was required. Outside EMS, the Swiss franc (1.6802) firmed to 0.91½ against the mark and the National Bank bought \$10 mn. The yen weakened on Friday, following the announcement of the package of measures to stimulate the economy, but recovered quickly, to close a little firmer at 216.59. The Swedes continued to support the crown selling \$280 mn. and the Canadians sold \$50 mn. On the other hand, the Norwegians were able to buy a further \$90 mn.

Gold was a very active market with the price rising strongly throughout the week. The first fixing was at \$637.25 but having passed the \$650 resistance point in the Far East on Friday morning, when Cuban troops were reported in Afghanistan, the metal continued to meet strong demand. After the weekend, heavy buying from the Middle East, in particular, pushed the price up steadily and it fixed at \$686.50 on Wednesday afternoon, a rise of \$50 on the week.

10 September 1980  
T.R.S.



RATES, ETC.

10.15 a.m.

4th September

2.4094

76.2

4 11/16% p.a. disc.

11 1/8%

1/8% pre.

1.7750

4.27 1/8

9.94 1/4

216.85

\$637

1.6255

3.91 1/8

£/\$

Effective exchange rate index

Forward 3-months

Euro-\$ 3-months

I.B.Comparison

\$/DM

£/DM

£/FF

\$/Yen

Gold

\$/S.Fc.

£/S.Fc.

10.15 a.m.

11 September

2.4115

76.2

4 3/16% p.a. disc.

11 11/16%

1/16% disc.

1.7762

4.28 3/8

9.96 1/2

215.55

\$679

1.6275

3.92 1/2