

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 1st October 1980

Markets remained nervous about the course of events in the Middle East but during the week interest rates reasserted their dominant influence over exchange rate movements. As the Fed acted to curb excessive growth in the money supply, US rates moved up sharply and the dollar strengthened. Sterling rather remained on the sidelines, the ERI drifting down 0.5 to 75.8.

Although there was some professional and central monetary interest at times, the level of business in sterling was, for the most part, not very great. Initially sold on Wednesday night in New York on MLR fears, sterling recovered to close at 2.4005 after the Iraqi attack on Kharg Island. It opened in London on Thursday at 2.4003 and rose against a weaker dollar to touch 2.4047 during the afternoon. However, the overnight increase in the Fed's discount rate made for a firmer dollar on Friday and sterling settled to trade around 2.3960, strengthening briefly on the report that Iraq had halted all oil exports but easing again when OPEC declared they would make good any shortfall. After the weekend, against a much stronger dollar, sterling softened further to move narrowly in the range 2.38½ - 2.39½ and it encountered some selling by the IMM in New York on Tuesday night, where it closed at 2.3805. Although there was some recovery on Wednesday, with further fears about a cut in MLR, sterling was generally a little weaker, closing at 2.3891, a fall of 1½ cents on the week. Overall the pound was little changed on the continent, closing at 4.31½ in Germany and 10.01½ in France but it lost ½% to 3.92½ in Switzerland. Against the ECU sterling went to 1.7044, a premium of 9½% on the notional central rate. Eurodollar rates rose by over 1%, 3 months deposit closing at 13¼%, but with the cost of cover falling to 2 3/16% and a small rise in sterling interbank rates the covered differential in favour of sterling widened to ½%.

The 1% increase in the Fed's discount rate, to 11%, two increases in most prime rates, to 13½%, and the unexpectedly large rise in the money supply announced on Friday caused eurodollar rates to move up sharply. The dollar strengthened in all centres except Tokyo, but central bank intervention limited the improvement. The Fed sold \$65 mn. mostly against marks, and the Bundesbank \$140 mn. The mark fell to 1.8075. EMS continued under little pressure, despite the defeat of the Italian government, although the width of the band widened to 3 13/16% with the Dutch florin (1.9627) remaining at the top. The lira (860.35) was, as usual, at the bottom and received support totalling \$250 mn. either side of the weekend. The French franc (4.1932) stayed close to the top of the arrangement and the Bank of France bought \$110 mn.-worth of deutschemarks. Outside EMS, the yen was again the subject of strong interest by Middle East investors and it rose by over 3% to 208.50, despite purchases of \$435 mn. by the Bank of Japan. The Swiss franc (1.6423) strengthened to 0.91½ against the deutschemark. Pressure on the Swedish crown eased and the Riksbank provided only \$20 mn. (net) in support while the Norwegians were able to take in \$120 mn. The Canadians sold \$120 mn. net.

Gold continued somewhat volatile, reacting quickly to the latest news from the battlefield. After fixing at \$705 on Thursday morning the price fell, without noticeable resistance, through the \$700 level that afternoon and the downward movement was given added impetus by rumours of a conference between Iran and Iraq. The price fell to \$666½ at the afternoon fixing on Monday (after touching \$660 on Monday night in New York) but recovered on Wednesday, as the dollar eased back from its highest levels, to fix at \$682 in the afternoon, a fall of \$28 on the week.

2 October 1980

T.R.S.

RALES, ETC.10.15 a.m.10.15 a.m.

<u>25th September</u>		<u>2nd October</u>
<u>2.3997</u>	<u>£/\$</u>	<u>2.3865</u>
<u>76.4</u>	<u>Effective exchange rate index</u>	<u>75.7</u>
<u>3 1/16% p.a. disc.</u>	<u>Forward 3-months</u>	<u>1 3/8% p.a. disc.</u>
<u>12 1/2%</u>	<u>Euro-\$ 3-months</u>	<u>13 7/16%</u>
<u>5/16% pre.</u>	<u>I.B. Comparison</u>	<u>1/2% pre.</u>
<u>1.8006</u>	<u>\$/DM</u>	<u>1.8072</u>
<u>4.32 1/2</u>	<u>£/DM</u>	<u>4.31 1/4</u>
<u>10.03 3/4</u>	<u>£/FF</u>	<u>10.00 1/2</u>
<u>215.65</u>	<u>\$/Yen</u>	<u>208.42</u>
<u>\$705</u>	<u>Gold</u>	<u>\$676</u>
<u>1.6482</u>	<u>\$/S.Fc.</u>	<u>1.6415</u>
<u>3.95 1/2</u>	<u>£/S.Fc.</u>	<u>3.91 1/4</u>