

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 22nd October 1980

A further relaxation in monetary policy by the Bundesbank and very tight money markets in both London and New York caused a substantial outflow from the deutschemark and other European currencies into dollars and pounds. Fears of a reduction in MLR brought some reaction towards the end of the week but sterling meanwhile had established a 7-year high against the dollar and touched its best level for several years against the major European currencies. The ERI rose from 76.6 to 78.3, after setting a record 78.4 on Tuesday.

With MLR unchanged on Thursday, sterling came back into demand and, having finished last week at 2.4084 and touched 2.4053 on Thursday morning, it was bid up from there. The Bundesbank's DM3bn. increase in rediscount facilities gave further impetus to the firmness of the dollar and pound. Sterling touched 2.4235 in New York on Thursday but met profit-taking on Friday. However, with an encouraging RPI, the pound soon re-established the higher levels. Sterling was sold again in New York on Friday, when the dollar strengthened generally following large increases in the monetary aggregates but by Monday the pound and dollar were moving ahead in unison again. Widespread demand was seen that afternoon and commercial sellers were conspicuous by their absence. After a quiet start on Tuesday, two further waves of general demand carried sterling to a crest of 2.4515 - its highest level for over 7 years - before the larger professionals began to take profits and both pound and dollar went into retreat. Expectations of a reduction in MLR kept sterling in check on Wednesday and it closed the week at 2.4357 for a rise of nearly 3 cents. Sterling hardened by $3\frac{1}{2}\%$ to 4.54% against the deutschemark, after a 4-year high of 4.58% on Tuesday. Against the Swiss franc it set a 3-year high of 4.06% before closing a net $2\frac{1}{2}\%$ better at 4.05%. Against the French franc sterling gained $3\frac{1}{2}\%$ to 10.48% after marking its highest point (10.55) for nearly 6 years. In Italy the pound established an all-time high (2163) on Tuesday. Against the ECU sterling went to 1.7757, a premium of $13\frac{1}{2}\%$ on the notional central rate. Euro-dollars gained nearly $\frac{1}{2}\%$ over the week but sterling deposit rates were nearly $\frac{1}{2}\%$ better bid. Forward margins thus widened, the three-months' to $2\frac{1}{2}\%$ p.a. discount. Sterling's intrinsic premium remained at $\frac{1}{2}\%$.

Fears of some further tightening in monetary policy, following the large increases in the monetary aggregates, spurred the dollar. The trend was reinforced by increases in third quarter GNP and September housing starts which were both larger than expected. The dollar gained too, from its role as a vehicle into sterling. Against the deutschemark it rose $2\frac{1}{2}\%$ to 1.8675 but against the Swiss franc it gained only 1% to 1.6657. The deutschemark/Swiss franc cross-rate fell sharply to SFO.8919. The Bundesbank sold nearly \$250mn. and nearly \$200mn. on Federal Reserve account. They also let go \$50mn. in cover of capital exports. The Federal Reserve in addition sold over \$300mn. for deutschemarks and \$50mn. for French francs. EMS closed little changed, 3 11/16% stretched between the French franc (4.3050) and lira (884.50) but, within the band, the distance between the deutschemark and French franc widened at times to $2\frac{1}{2}\%$. The French bought \$16mn., marks worth \$110mn. and \$25mn. of Swiss francs; the Danes bought \$17mn. and a few marks, while the Irish sold around \$25mn. (net). Dutch Bank Rate was lowered on Monday from $8\frac{1}{2}\%$ to 8%. The yen was very steady amidst the turmoil elsewhere trading in a narrow range around 208. Over the week it eased from 207.25 to 209.40. The Canadian dollar, too, was quiet. The Canadians sold around \$25mn.

Gold was steady before the weekend, trading either side of \$670. The metal was sold, however, in New York late on Friday and traded down to \$651 on Monday before recovering to \$660 at the fixing on Wednesday afternoon.

78.6	Effective exchange rate	
24 p.m. 1980	Forward 3-months	
130	Forward 1-month	
5/100 p.p.	Comparison	
1.0007	1/100	1.0012
4.331	1/100	4.3317
10.144	1/100	10.144
207.95	1/100	207.95
33.74	1/100	33.74
10.40	1/100	10.40
207.95	1/100	207.95
33.74	1/100	33.74
10.40	1/100	10.40

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
16th October		23rd October
2.4056	£/\$	2.4390
76.6	Effective exchange rate index	78.4
2 $\frac{3}{8}$ % p.a. disc.	Forward 3-months	2 $\frac{3}{8}$ % p.a. disc.
13%	Euro-\$ 3-months	13 $\frac{1}{4}$ %
5/16% pre.	I.B.Comparison	3/16% pre.
1.8257	\$/DM	1.8612
4.39 $\frac{1}{4}$	£/DM	4.53 15/16
10.14 $\frac{3}{8}$	£/FF	10.46 $\frac{1}{4}$
207.95	\$/Yen	210.52
\$674	Gold	\$650
1.6456	\$/S.Fc.	1.6604
3.95 $\frac{1}{2}$	£/S.Fc.	4.05