

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 29th October 1980

In active markets the movement into dollars from the Continental currencies, particularly the deutschemark, continued. Euro-dollar rates moved sharply higher, reinforcing the trend and carrying the dollar to a series of new 6-month highs in Europe. Sterling remained very firm, holding its own against the dollar and making further gains on the Continent. The ERI rose by 0.7 to 79.0, after a record 79.3 at the opening on both Friday and Monday.

After closing in New York at 2.4340 sterling opened on Thursday at 2.4295 and fell to 2.4285 in early business on MLR fears. Following the no-change announcement, short covering from New York and strong demand on both commercial and official account drove the rate up rapidly: it went through 2.45 that afternoon and, on the back of further Middle East buying from Switzerland, the rate touched 2.4645, another 7-year high, on Friday morning. Later, as rumours circulated that MLR might be reduced over the weekend, the pound dropped equally quickly, to close at 2.44. After the weekend, professional demand from Europe took the rate back to the 2.45½ level before some sizeable selling from New York and London caused a reaction. Against the background of a much stronger dollar, a large selling order from Switzerland pushed the rate down to 2.43 on Tuesday morning and, with New York also selling sterling, the rate dipped to 2.4267 in the afternoon. However, the Prime Minister's statement that interest rates could not be reduced while loan demand remained buoyant sparked off further buying interest and the rate rose to trade around the 2.44 level throughout Wednesday, closing at 2.4430. Sterling made further sizeable gains on the Continent, going to a series of new highs against the major Continental currencies. Against the Swiss franc sterling rose 2% to 4.13% and it gained a further 1% against both the deutschemark and French franc to 4.60% and 10.60% respectively. Against the ECU sterling went to 1.7964, a premium of 14% on the notional central rate. Euro-dollar rates rose by over 1%, three-months' deposits closing at 15%, but as the cost of cover narrowed rather less to, 1 9/16%, sterling's intrinsic premium disappeared.

The unexpected increase in M1A, together with the upward revision to the previous week's figures, caused a sharp jump in Euro-dollar rates, encouraging the flow of funds from Germany into dollars. Sizeable support for the mark was provided, the Bundesbank selling \$50mn. and \$265mn. on Federal Reserve account. In addition, the Fed sold \$200mn., nearly all against purchases of marks. The dollar gained a further ½% against the mark to 1.8834 (after 1.8980) but the mark improved to 0.90 against the Swiss franc. Large-scale support for the mark, which throughout the week was at its 2½% limit against the French franc (4.3395) in the EMS, was also required. The Bundesbank sold \$300mn.-worth of French francs and the Bank of France bought nearly \$600mn.-worth of marks. The lira (892.80) remained 3½% below the French franc. The Belgians sold \$40mn., the Irish \$20mn. and the Danes \$4mn. Elsewhere the Swiss franc (1.6931) lost 1½% against the dollar but the yen (209.85) was unchanged. The Canadian dollar required some support in advance of the Budget, the Bank of Canada selling \$110mn. net. The Swedes sold only \$20mn., net, and the Norwegians bought \$75mn.

Gold was mainly a weak market, the price depressed by expectations that the US hostages in Iran might be released. After opening around \$650 the price fell sharply, to \$628 at the morning fixing on Friday. The metal then traded around the \$630 level but recovered on Wednesday as the Iranian Parliament again failed to make a decision on the hostages issue, fixing at \$644 in the afternoon for a fall of \$16 on the week.

29th October 1980.

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>23rd October</u>		<u>30th October</u>
<u>2.4390</u>	<u>£/\$</u>	<u>2.4427</u>
<u>78.4</u>	<u>Effective exchange rate index</u>	<u>79.0</u>
<u>2½% p.a. disc.</u>	<u>Forward 3-months</u>	<u>1 9/16% p.a. disc.</u>
<u>13½%</u>	<u>Euro-\$ 3-months</u>	<u>14½%</u>
<u>3/16% pre.</u>	<u>I.B.Comparison</u>	<u>5/16% pre.</u>
<u>1.8612</u>	<u>\$/DM</u>	<u>1.8876</u>
<u>4.53 15/16</u>	<u>£/DM</u>	<u>4.61 1/16</u>
<u>10.46½</u>	<u>£/FF</u>	<u>10.62½</u>
<u>210.52</u>	<u>\$/Yen</u>	<u>209.47</u>
<u>\$650</u>	<u>Gold</u>	<u>\$646</u>
<u>1.6604</u>	<u>\$/S.Fc.</u>	<u>1.6977</u>
<u>4.05</u>	<u>£/S.Fc.</u>	<u>4.14½</u>