FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 12th November 1980

Markets were volatile and nervous. As US interest rates appeared to peak, a massive reversal of the recent flows into the dollar took place. Sterling, which earlier had strengthened with the dollar, weakened sharply against all currencies as the dollar fell back. The ERI dropped 2.3 to 77.9, after 77.5 on Tuesday.

After weeks of growing strength, sterling was heavily sold at times during the period as the uncovered differential between UK and US interest rates turned briefly against London for all except the shorter maturities. The wave of selling was commenced by the IMM in Chicago on Friday and taken up by London and continental banks after the weekend. Having closed in New York at 2.4455, sterling opened in London on Thursday at 2.4492 and touched 2.4507 during the morning. The rate then began to ease as the dollar strengthened further and it opened over 2 cents lower the following day, with the softer tone reinforced by heavy selling which developed as soon as the US entered the market. In hectic trading, the rate fell quickly, losing a further 2½ cents to close at 2.4057, but recovered a little in New York that night. On Monday sales of sterling against marks, in particular, recommenced and from the opening level of 2.4190, the rate fell. It bottomed at 2.3853 on Wednesday and with Euro-dollar rates then again below sterling inter-bank rates, sizeable demand for sterling on both professional and commercial account was seen. The rate steadied to end at 2.3973, a loss of nearly 5 cents on the week. With much of the sales of sterling taking place against continental currencies, the pound lost ground sharply in Europe, falling by 4¾% against the mark to 4.53¾, by 4⅜% against the Swiss franc to 4.08¼ and by 4% against the French franc to 10.51⅞. Against the ECU sterling went to 1.7740, a premium of 13⅛% on the notional central rate. Euro-dollar rates eased back over the week, three-month deposits closing at 15⅝% after allowance for technical factors and with little change in the cost of cover there was a covered differential of ⅛% in favour of sterling.

Before the weekend the dollar continued to strengthen but statistics released on Friday suggested that the recovery from the recession was not as strong as previously thought. Euro-dollar rates fell and the dollar weakened. At the same time, a massive order to buy marks against dollars hit the market and the dollar lost ground rapidly in Continental Europe. Modest intervention was undertaken, mainly by or on behalf of the Fed, who sold $150mn. net against marks. After touching 1.9620 the mark improved to 1.8930. In the EMS, the mark required support before the weekend, the French buying $340mn.-worth of DM and the Germans selling $190mn.-worth of francs, but the pressure eased following measures by the French to depress the franc (4.3875) and as the effect of the large order to buy marks was felt. The Belgian franc (39.38) closed at the limit of the 2¼% band, against the guilder, (2.0530), after sales by the National Bank of $100mn. of French francs and guilders. The lira (897.50) fell to 3½% below the guilder after net purchases of $27mn. Elsewhere, the Swiss franc (1.7030) eased to 0.90 against the mark and the yen (212.25) fell a further ½%. With the major European currencies back in demand, the Swedish crown again required support ($220mn.) but the Canadians were able to buy $40mn. net.

Gold was a very weak market as the effects of high interest rates on the cost of running gold positions took their toll. The first fixing was at $633.75 but the price plummeted as Euro-dollar rates rose on Friday, falling through the $600 level to fix at $596½ that afternoon. A nervous recovery then took place, the metal ending the week at $619½, a fall of $33 over the week.

12th November 1980.
TRS

RATES, ETC.

10.15 a.m.		10.15 a.m.
6th November		13th November
2.4460	£/$	2.4150
80.2	Effective exchange rate index	78.4
11/16% p.a. disc.	Forward 3-months	9/16% p.a. disc.
16 1/16%	Euro-$ 3-months	15¼%
3/16% pre.	I.B.Comparison	7/16% pre.
1.9392	$/DM	1.8905
4.74⅜	£/DM	4.56½
10.92⅞	£/FF	10.56⅞
210.82	$/Yen	211.92
$637	Gold	$617
1.7375	$/S.Fc.	1.70
4.25	£/S.Fc.	4.10½