

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 19th November 1980

The exchanges continued volatile, responding mainly to changes in interest rate differentials. A 1% rise in the Fed's discount rate, together with other moves to tighten credit, caused renewed rises in US interest rates and the dollar recovered some of last week's losses. As Euro-dollar rates went above sterling inter-bank rates, the pound fell back with the continental currencies against the stronger dollar. The ERI lost 0.3, closing at 77.6.

In late trading in London on Wednesday, and that night in the US, sterling gained nearly 2 cents, closing in New York at 2.4160. Although it opened rather lower in London the next day, at 2.4092, the unchanged MLR and a large commercial buying order helped the firmer tone and sterling rose fairly steadily over the day to touch 2.4235 during the afternoon. However, the higher levels attracted some overnight selling from New York which took the rate a cent lower by the London opening on Friday. The selling was resumed by the IMM during the afternoon and the pound fell quickly to close at 2.4040 before the weekend. Reaction to the Fed's 1% increase in the discount rate was first seen in the Far East on Monday: against a much stronger dollar, sterling had slipped to 2.3817 by the London opening and it touched 2.3805 in early business. Some buyers then appeared and the rate firmed to trade mostly in the range 2.38½-2.39½, with the announcement of the large October trade surplus helping sentiment. On Wednesday, however, growing expectations of a cut in MLR made for a nervous market in sterling and with commercials and the IMM also selling heavily during the afternoon the rate came under pressure. In active trading sterling fell rapidly to a low of 2.3765 before closing at 2.3795, a loss of nearly 2 cents on the week. Sterling was almost unchanged on the continent, closing at 4.52½ against the deutschemark and 4.08½ and 10.51 against the Swiss and French francs respectively. Against the ECU sterling went to 1.7728, a premium of 13% on the notional central rate. Following the discount rate rise, Euro-dollar rates rose by ½% over the week, three-months' deposits closing at 16½%, after allowance for technical factors. With sterling inter-bank rates below Euro-dollars, forward sterling moved to a premium of ¾% and there was a covered differential of ½% in favour of London.

The widely anticipated 1% rise in the Fed's discount rate announced late on Friday in New York was followed on Monday by increases in the major banks' primes from 15½% to 16½%. Euro-dollar rates rose and the dollar strengthened rapidly. However, the release of the money supply figures showing a modest decline in M1A caused a reaction; Euro-rates turned down again and the dollar eased, closing only a little firmer in Europe over the week. The Fed sold \$325mn. against marks, mostly on Monday, and the mark closed at 1.9032. With the deutschemark away from the bottom of the 2½% band, there was little pressure in the EMS, and intervention was minimal. The guilder (2.0647) remained at the top of the arrangement, with the Belgian franc (30.63) 2 3/16% lower and the lira (906.50) 3¼% adrift. The French franc (4.4170) moved a little lower in the band after sales of \$50mn. and sales of \$80mn.-worth of deutschemarks. Elsewhere, the Swiss franc closed at 1.7165 and the yen was very steady at 212.75. Modest support (\$100mn.) was provided for the Swedish crown but the Canadians undertook little net intervention.

Gold firmed over the week. The first fixing was at \$616 but the price fell sharply on Monday after the discount rate rise, to fix at \$609.25 in the morning. Later in the week, as the dollar fell back from its higher levels, the price rose steadily, to fix at \$629.75 on Wednesday afternoon, a rise of \$10 over the week.

19th November 1980.

TRS

Jamp

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>13th November</u>		<u>20th November</u>
<u>2.4150</u>	£/\$	<u>2.3840</u>
<u>78.4</u>	Effective exchange rate index	<u>77.7</u>
<u>9/16% p.a. disc.</u>	Forward 3-months	<u>1% pre.</u>
<u>15½%</u>	Euro-\$ 3-months	<u>16 5/16%</u>
<u>7/16% pre</u>	I.B.Comparison	<u>1/16% pre.</u>
<u>1.8905</u>	\$/DM	<u>1.9022</u>
<u>4.56½</u>	£/DM	<u>4.53½</u>
<u>10.56%</u>	£/FF	<u>10.52</u>
<u>211.92</u>	\$/Yen	<u>212.83</u>
<u>\$617</u>	Gold	<u>\$634</u>
<u>1.70</u>	\$/S.Fc.	<u>1.7130</u>
<u>4.10½</u>	£/S.Fc.	<u>4.08½</u>