

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 3rd December 1980

The Thanksgiving Day holiday and the approach of the year-end made for a relatively quiet week in the exchanges. As prime rates moved even higher and the Fed intervened domestically to tighten credit, Euro-dollar rates rose and the dollar strengthened. The widening differential between UK and US rates gave sterling a softer tone; the ERI lost 0.5, closing at 77.3.

After closing in New York on Wednesday night at 2.3707, sterling opened in London on Thursday $\frac{1}{8}$ lower at 2.3668 and in quiet, holiday-affected markets the rate drifted down against a strengthening dollar. The rather weaker tone was evident again on Friday when there was heavy selling from the Far East, particularly Hong Kong, and in active early trading sterling was sold down to 2.3557 before recovering to close at 2.3585 that afternoon. After the week-end, demand from the Middle East and Europe carried sterling up to 2.36 but as the dollar's advance continued the rate started to give ground, falling to touch 2.3425 before closing at 2.35. Following the increase in US prime rates on Tuesday, sterling eased back further falling that night in New York to 2.3307. However, it recovered to trade narrowly around the 2.34 level on Wednesday, the rate closing the period at 2.3465, a loss of almost $2\frac{1}{2}$ cents on the week. Sterling was virtually unchanged on the Continent, closing at 4.54 $\frac{1}{2}$ against the deutschemark and at 4.10 $\frac{1}{2}$ and 10.54 $\frac{1}{2}$ against the Swiss and French francs respectively. Against the ECU sterling went to 1.7807 a premium of 13 $\frac{1}{2}$ on the notional central rate. Following another $\frac{1}{8}$ increase in primes to 18 $\frac{1}{2}$ %, Euro-dollar rates rose a further $\frac{1}{8}$ %, three-month deposits closing at 18 $\frac{1}{2}$ % after allowance for technical factors. The forward premium on three-months' sterling widened to 3 $\frac{1}{2}$ % and with sterling interbank rates a little firmer the covered differential against London narrowed to 1/16%.

Although the figures announced on Monday did show a decline in the monetary aggregates, there was little sign that the relentless upward progression in US rates might be coming to an end. The Fed allowed Federal Funds to move up to the 18% level and prime rates, led by Chase Manhattan, moved to 18 $\frac{1}{2}$ %. The dollar improved further in Europe, rising by 1% against the deutschemark to 1.9375 despite sales of \$250mn. by the Fed and \$20mn. by the Bundesbank. EMS remained fairly relaxed, with the Belgian franc (31.19) at the bottom end of the 2 $\frac{1}{2}$ % band requiring slight support against the guilder (2.1010) at the top. The National Bank sold \$50mn.-worth of guilders and the Nederlandsche Bank bought \$30mn.-worth of francs. The French franc (4.4937) was a little lower within the arrangement and the lira widened out to 3 3/4% adrift after purchases of \$250mn. Outside EMS the Swiss continued to ease liquidity pressures and the franc (1.7497) remained at 0.90 against the deutschemark. The Swedes provided further support for the crown totalling \$75mn. and the Canadians sold \$125mn. net. On the other hand, the Norwegians were able to buy \$70mn. Following the removal of exchange controls the yen initially had a softer tone but ended the week 1% firmer at 214.60.

Gold was a fairly steady market, the price firming gradually over the week despite higher Euro-dollar rates. After fixing at \$620 on Thursday morning the metal moved in a narrow range before the week-end but moved up sharply on Monday, to \$635 $\frac{1}{2}$ at the morning fix, as nervousness about Russian intentions towards Poland increased. Thereafter the price eased back a little, to \$627 $\frac{1}{2}$ on Wednesday afternoon, a rise of \$4 on the week.

3rd December 1980.

TRS

J.A.H.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
27th November		4th December
<hr/> 2.3653 <hr/>	£/\$	<hr/> 2.3480 <hr/>
77.7	Effective exchange rate index	77.3
3 3/16% pre.	Forward 3-months	3 5/16% pre.
18%	Euro-\$ 3-months	18 5/16%
1/4% disc.	I.B.Comparison	3/8% disc.
<hr/> 1.9260 <hr/>	\$/DM	<hr/> 1.9435 <hr/>
<hr/> 4.55 1/2 <hr/>	£/DM	<hr/> 4.56 3/4 <hr/>
<hr/> 10.56 1/4 <hr/>	£/FF	<hr/> 10.57 3/4 <hr/>
<hr/> 215.87 <hr/>	\$/Yen	<hr/> 212.67 <hr/>
<hr/> \$620 <hr/>	Gold	<hr/> \$634 * <hr/>
<hr/> 1.7372 <hr/>	\$/S.Fc.	<hr/> 1.7525 <hr/>
<hr/> 4.10 1/4 <hr/>	£/S.Fc.	<hr/> 4.11 1/2 <hr/>