

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 10th December 1980

Further increases in US interest rates, including a return to record 20% primes, took the dollar to its best level for over two years in Germany and, at the same time, dealt the gold price a heavy blow. Sterling remained largely on the sidelines, trading in a narrow range throughout the week; the ERI rose 0.6 to 77.9.

For much of the week business in sterling was at a very low level, with the pound remaining quietly firm against a steadily strengthening dollar. Sizeable gains were accordingly made against most of the continental currencies. After closing in New York on Wednesday night at 2.3485, sterling opened in London on Thursday at 2.3445. Modest buying in the morning took the rate to 2.3493 but following the overnight increase in the Fed's discount rate, the pound moved back to trade narrowly around the 2.34 level on Friday. After the week-end the same pattern was repeated, with sterling holding very steady in the 2.33-2.34 range as the dollar moved swiftly ahead. Although there was some commercial selling on Tuesday afternoon, when the rate dipped briefly to 2.3330, buying by the IMM in Chicago took it back to 2.3390 by the close that evening. On Wednesday, as the mark fell to DM2 = US\$ 1 sterling held very firm, the rate ending the period quietly at 2.3405. The pound made large gains on the Continent, rising by 2½% against the mark to 4.67½, by 3% against the Swiss franc to 4.22% and by 2½% against the French franc to 10.80%. Against the ECU sterling went to 1.8178, a premium of 15½% on the notional central rate. Following the increases in US interest rates, Euro-dollar rates rose 2½% over the week, three-months deposits closing at 20½%, after allowance for technical factors. With the forward premium for three-months sterling widening to 6½% and little change in sterling interbank rates, there was a covered premium of ½% in favour of London.

The 1% increase, to 13%, in the Fed's discount^{rate} at the close of business in New York on 4th December, determined action by the Fed in the domestic market to tighten credit and two further increases in primes, which took them to 20% on Wednesday, all made for an extremely strong dollar. Fed intervention, totalling \$800mn. against purchases of deutschmarks, helped to limit the extent of the improvement but the dollar nevertheless gained 3% in Germany to close at 1.9965 (after 2.0025) against the mark. There was no pressure in the EMS, where the Belgian franc (32.10) remained at the bottom of the narrower band, 2½% below the French franc (4.6175) which replaced the guilder (2.1675) at the top. The Bank of France bought \$210mn.-worth of deutschmarks. The lira (946) moved closer to the 2½% band, finishing 3½% below the French franc after purchases of \$75mn. The Danish crown (6.1087) was very firm and the Central Bank was able to buy \$130mn. Outside EMS the Swiss franc eased to 0.90½ against the mark and the Swedish crown continued to require support, totalling \$165mn. over the week. In contrast to the continental currencies, the yen (208.65) strengthened by 3% against the dollar during the week as the Japanese economy continued to show signs of improvement. With the US dollar strengthening sharply, the Bank of Canada provided support totalling \$150mn. net for the Canadian dollar.

Gold was extremely weak, hit again by the increased cost of running a position. The first fixing was at \$632.70 but the price steadily gave ground, dropping abruptly through the \$600 level on Wednesday, after the move to 20% primes, to fix at \$579 in the afternoon, a loss of almost \$50 on the week.

10th December 1980.

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
4th December		11th December
<u>2.3480</u>	£/\$	<u>2.3375</u>
<u>77.3</u>	Effective exchange rate index	<u>78.2</u>
<u>3 5/16% pre.</u>	Forward 3-months	<u>6 1/2% pre.</u>
<u>18 5/16%</u>	Euro-\$ 3-months	<u>21 3/8%</u>
<u>3/8% disc.</u>	I.B.Comparison	<u>1/2% disc.</u>
<u>1.9435</u>	\$/DM	<u>2.0147</u>
<u>4.56 3/8</u>	£/DM	<u>4.71</u>
<u>10.57 3/8</u>	£/FF	<u>10.88 1/2</u>
<u>212.67</u>	\$/Yen .	<u>210.50</u>
<u>\$634</u>	Gold	<u>\$569 ^</u>
<u>1.7525</u>	\$/S.Fc.	<u>1.8282</u>
<u>4.11 1/2</u>	£/S.Fc.	<u>4.27 3/8</u>