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FOREIGN EXCHANGE AND GOLD MARKETS
Fortnight ending 31st December 1980

The Xmas holiday and the proximity of the year-end made for generally thin markets. As US interest rates seemed to peak the dollar gave up some of its recent gains. Sterling came into demand towards the end of the period and the ERI rose 1.3 to 78.7, the highest level for over a month.

After closing in New York on 18th December at 2.33, sterling opened at the same level in London the next day but fell back in early business to touch 2.32 before settling to trade between 2.32½ and 2.33½ on 19th and 20th December. In the three days before Xmas on the back of some central bank and Middle East demand, sterling gained steadily against an easier dollar to close at 2.3785 in London on Xmas Eve. Following further buying in New York on Boxing Day, the pound opened in London on 29th December at 2.3825, and although some modest selling in a thin market held the rate down, there was some recovery that night in New York. The stronger tone was continued on Tuesday when, after opening at 2.37, good commercial buying took the rate to 2.3960. The gains were held on Wednesday and sterling ended at 2.3920, a rise of 7 cents over the period. Sterling strengthened against the continental currencies rising 1¼% to 4.69½ against the deutschemark, 1¼% to 4.25% against the Swiss franc and ¾% to 10.82 against the French franc. Against the ECU sterling went to 1.8211, a premium of 15¼% on the notional central rate. Euro-dollar rates fell sharply over the period, three-months' deposits closing 3½% lower at 17¼%. With the forward premium for three-month sterling falling by 4% to 3 5/16%, sterling's intrinsic premium was 7/16%.

US interest rates peaked during the period. Prime rates at first moved ¼% higher to a record 21¼% on 19th December but then Chase Manhattan initiated a 1% cut, to 20¼% on 23rd December, which, after Xmas, was followed slowly by some other major banks. As rates came down the dollar weakened generally falling by 2% in Germany where the mark closed at 1.9620. EMS was under little pressure with the Belgian franc (31.47) requiring some support against the French franc (4.5237) which replaced the guilder (2.1315) at the top of the arrangement at the beginning of the period. The National Bank sold \$120mn.-worth of French francs and the Bank of France bought \$25mn.-worth of Belgian francs. The lira (930.50) fell to 3¼% below the French franc despite support totalling \$750mn. by the Bank of Italy. Elsewhere, the yen was the main subject of interest, rising 3% to 203.15 as the improving economic and balance of payments situation provoked further inflows. The Bank of Japan bought \$300mn. The Swiss franc (1.78) moved with the mark but the Swedish crown continued to receive support, totalling \$150mn. over the period. As US interest rates started to move down, pressure on the dollar eased and the Bank of Canada was able to recoup \$300mn. over the period.

Gold was a fairly quiet market. The first fixing was at \$577 but the price firmed sharply, to fix at \$604 on Xmas Eve as US interest rates started to fall back. However, the higher levels could not be sustained and after the holiday the price eased back, to fix at \$589½ on Wednesday, a rise of \$15 over the period.

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