

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 7th January 1981

As participants returned from their holidays the exchange markets became deeper and the level of activity increased. Further reductions in prime rates and a fall in the money supply made for a rather weaker dollar. Sterling was in good demand and rose to its highest level for two months. The ERI gained 0.3, closing at 79.0.

There was a good two-way market in sterling during the first week of the year, with a very large Middle East order providing underlying support to the rate. At the higher levels particularly both commercial and professional selling was seen. After closing in New York on 31st December at 2.3885, sterling opened the New Year in London at 2.3875. In a very quiet market the rate dipped to touch 2.3780 at noon but then traded narrowly around 2.38, closing at that level before the weekend. On Monday, in a much more active market, sterling opened at 2.3925 and as the impact of the large Middle East order began to be felt the rate moved up steadily against an easier dollar to breach 2.40 at noon. Following the release of the US money supply figures, which showed a \$2.5 bn. fall in M1A, the dollar gave up further ground and sterling rose on Tuesday morning to touch 2.4335. However, at the more elevated levels some professional and commercial selling was seen, particularly from New York on Tuesday afternoon. On Wednesday, with the dollar recouping some of its earlier losses, sterling eased back to trade in the 2.41-2.42 range, ending the period at 2.4168. The pound was almost unchanged against the Continental currencies, closing at 4.68½ against the deutschemark and 4.24½ and 10.84½ against the Swiss and French francs respectively. Against the ECU sterling went to 1.8275, a premium of 15½% on the notional central rate. Euro-dollar rates fell a further ¼% over the week, three-months deposits closing at 16½% after allowance for technical factors. The forward premium for three-months' sterling narrowed to 2 3/4% and with lower sterling inter-bank rates, sterling's intrinsic premium fell to ¼%.

Further falls in US interest rates in the form of a widespread reduction in prime rates to 20½%, with Chemical Bank going to 19½% on Tuesday, coupled with the good money supply figures, made for an easier dollar. The Fed intervened to steady the decline, buying a total of \$100 mn. against deutschemarks and yen. The mark gained 1% to close at 1.9398. EMS continued under little pressure with the Belgian franc (31.21) ending 2 3/16% below the French franc (4.4885) after sales by the National Bank of French francs worth \$8 mn. The lira (922.60) closed 3¼% below the French franc after sales of nearly \$300 mn. by the Bank of Italy. Elsewhere, the yen continued in very strong demand, touching 198.70 on Monday before closing at 200.50 after purchases of \$1 bn. by the Bank of Japan. The Swiss franc (1.7560) remained at 0.90½ against the deutschemark but pressure on the Swedish crown was resumed and \$120 mn. of support was provided. The Canadian dollar again was very firm as US interest rates eased and the authorities announced a record Can.\$1.5 bn. trade surplus. The Bank of Canada was able to add \$100 mn. to reserves.

Gold was a weak market. The price on several occasions attempted to break through \$600, touching \$602 on Tuesday morning, but fell back to \$599½ at both fixes that day. On Wednesday, as reports suggested that the Iranians might be prepared to negotiate over the release of the US hostages, the price gave ground to fix at \$585 in the afternoon, a loss of \$5 on the week.

8th January 1981.
TRS

Jew

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>31st December</u>		<u>8th January</u>
<u>2.3870</u>	£/\$	<u>2.4040</u>
<u>78.5</u>	Effective exchange rate index	<u>79.0</u>
<u>3 1/16% pre.</u>	Forward 3-months	<u>3% pre.</u>
<u>17 3/8%</u>	Euro-\$ 3-months	<u>17 9/16%</u>
<u>1/8% pre.</u>	I.B. Comparison	<u>1/8% disc.</u>
<u>1.9585</u>	\$/DM	<u>1.9625</u>
<u>4.67 1/2</u>	£/DM	<u>4.71 1/2</u>
<u>10.82 3/8</u>	£/FF	<u>10.91 1/8</u>
<u>203</u>	\$/Yen	<u>200.95</u>
<u>\$589</u>	Gold	<u>\$570</u>
<u>1.7670</u>	\$/S.Fc.	<u>1.7760</u>
<u>4.21 1/2</u>	£/S.Fc.	<u>4.27</u>