

RATES, ETC.

828

10.15 a.m.

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<u>8th January</u>		<u>15th January</u>
<u>2.4040</u>	E/\$	<u>2.4015</u>
<u>79. 0</u>	Effective exchange rate index	<u>79.7</u>
<u>3% pre.</u>	Forward 3-months	<u>4 5/16% pre.</u>
<u>17 9/16%</u>	Euro-\$ 3-months	<u>18 15/16%</u>
<u>1/8% disc.</u>	I.B. Comparison	<u>3/8% disc.</u>
<u>1.9625</u>	\$/DM	<u>2.0000</u>
<u>4.71 1/4</u>	£/DM	<u>4.80 1/4</u>
<u>10.91 1/8</u>	£/FF	<u>11.11 1/4</u>
<u>200.95</u>	\$/Yen	<u>202.70</u>
<u>\$570</u>	Gold	<u>\$565</u>
<u>1.7760</u>	\$/S. Fc.	<u>1.8130</u>
<u>4.27</u>	£/S. Fc.	<u>4.35 1/4</u>

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 14th January 1981

The exchanges were fairly steady, with movements again largely interest rate related. As US domestic rates were held around the 20% level, Euro-dollar rates rose and the dollar strengthened in all centres. Sterling was very firm, particularly on the continent, where it reached its highest level for several years. The ERI rose 0.4 to 79.4.

Sterling was in strong demand, particularly on official account on most days during the week. After closing in New York on Wednesday night at 2.4055, the pound opened almost unchanged in London on Thursday at 2.4053 and traded quietly between 2.39½ and 2.40½ until the weekend. Some modest commercial business in both directions was seen but most of the buying was on central bank account. Following the release of the US money supply figures Euro-dollar rates eased at first on Monday and the dollar weakened. Sterling touched 2.4130 in early business but then gave ground grudgingly against a strengthening dollar, trading in the range 2.40-2.41 virtually the whole of the day. However, the dollar firmed further overnight in New York and sterling, having fallen back to 2.3867 by the opening on Tuesday morning, settled to trade between 2.38½ and 2.39 throughout the day. Very substantial buying interest by both OPEC and European central banks was seen but commercial activity remained at a relatively low level. Sterling continued very stable on Wednesday and the rate ended the period firm in a quiet market at 2.3957. Sterling's stability against the dollar masked some sizeable gains on the continent where a number of benchmarks were established on Tuesday. The pound rose 1½% in Germany to DM 4.77½ (after a 6-year high of 4.77½), 2% in Switzerland to 4.32½ (a 3½-year high) and 1½% in France to 11.04 (after a 4½-year high of 11.05½). Against the ECU sterling went to 1.8534 a premium of 16% on the notional central rate. Euro-dollars rose nearly 2%, 3 months deposits closing at 18½% after allowance for technical factors. With the cost of cover widening to 4½% and sterling interbank rates a little lower, there was a covered differential of 3/16% against London.

Although the US money supply figures on Friday showed another large fall in the aggregates, Fed action in the domestic market to keep Fed funds tight produced an abrupt reversal of the recent falls in US interest rates. Prime rates, which had been diverging, regrouped at 20%, with some major banks moving down and Chemical Bank moving up from 19½% to 20%. The dollar moved back close to its strongest levels, rising 2% in Germany where the DM closed at 1.9920. The Fed sold \$150 mn. against marks. There was no pressure within the EMS where the Belgian franc (32.02) remained at the bottom of the narrower band, 2 1/16% below the French franc (4.6085) with the lira (947.75) 3½% adrift. Intervention was confined to sales of \$155 mn. by the Italians and purchases of \$23 mn. worth of marks by the French. Elsewhere the Swiss franc (1.8060) weakened to 0.90% against the mark. Unusually, the yen also eased against the dollar to 202.90 with the Bank of Japan buying only \$27 mn. The Swedish crown required daily support and the Riksbank sold \$280 mn. during the week. The Canadian dollar was firm and the Bank of Canada provided only \$50 mn. in net support.

Gold weakened further, hit by the upturn in US interest rates and reports that the US hostages in Iran might shortly be released. The first fixing was at \$573.25 and although the price initially rose a little, reaching \$579.75 on Friday, it dropped steadily after the weekend to fix at \$556.50 on Wednesday afternoon, a fall of almost \$30 over the week.

M. 15th January 1981
T.R.S.

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