

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 9th January 1980



Lively buying after the weekend pushed sterling over 1% higher in effective terms to 71.1, the strongest since September. The dollar, which was very weak at times, closed mixed.

Like most other currencies, sterling improved sharply against the dollar in late trading last Wednesday, closing at 2.2490 in New York, over 1½ cents higher than in London. On Thursday the rate rose further, to 2.2559; but the dollar then recovered before the weekend, leaving sterling to close at 2.2317 on Friday. The pound opened higher on Monday; traded in the 2.24½ to 2.25 range although the dollar was picking up elsewhere; and then came into good general demand, with North Americans prominent, which drove the rate up to 2.2670 in New York. Better-than-expected wholesale price figures, together perhaps with a feeling that oil and high interest rates make sterling attractive, inspired the demand. (Unfulfilled) hopes of an early settlement to the steel strike may also have been a factor. Sterling was more subdued on Tuesday, despite the banking figures, but demand erupted again on Wednesday to carry the rate to 2.2695 (the highest since early August) before 2.2680 at the close, a rise of 3½ cents in the period. The pound also gained on the Continent, closing at 3.88½, 9.09½, and 3.57½ against the mark, French franc and Swiss franc respectively. Against the ECU it improved to 1.5617. With little change in interest rates, a fall to 2 1/8% in the cost of cover widened sterling's intrinsic premium to 3/8%.

The dollar started in poor shape, recording an all-time low (1.6996) against the mark on Thursday morning. The rise in the gold price was thought to reflect poorly on it. It recovered some ground; looked queasy again on Monday morning after (delayed) U.S. money supply figures; but then improved on balance, if without great conviction. Expectations grew that oil producers will drop the dollar as a pricing medium. It remained a prey to talk and to developments in Iran and Afghanistan. The Fed. bought \$160 mn. against marks on Thursday. On balance the mark closed slightly stronger, at 1.7117. However, the Bundesbank sold \$210 mn. net, their sales of dollars to match loan conversions easily exceeding their market purchases. The French franc (slightly better at 4.0107) stayed top of the EMS, 1 7/8% above the Belgian franc (27.83 and 71 on the divergence index, after 74). The Belgians, worried about their currency's divergence and in political trouble, sold \$160 mn: the French bought \$50 mn. The lira eased to 800.97, after \$90 mn. of support. The Danes also gave their currency some support, but the Dutch bought \$60 mn. The Irish pound (2.1555), whilst showing a wider 5% discount against sterling, was firm enough for the central bank to buy \$40 mn. although they sold some £30 mn. Outside the EMS, the Swiss franc hardened to 1.5753; the SNB bought \$40 mn. The yen improved to 234.72 (after 231.60) on news of an oil deal with Iran. Good trade figures helped the Canadian dollar, but the Swedish crown stayed under pressure.

Gold continued on its erratic course. The price leapt over \$80 to \$660 in Hong Kong on Thursday; subsequently fixed at \$634 in London; fell well below \$600 on profit-taking; went as high as \$675 in the Far East on Monday; and then fell again, fixing at \$607.20 on Wednesday afternoon for a rise of \$47.70 in the period. Developments in the Middle and Near East dominate the market.

10th January 1980.  
PAB



RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>3rd January 1980</u>		<u>10th January 1980</u>
<u>2.2494</u>	£/\$	<u>2.2645</u>
<u>70.5</u>	Effective exchange rate index	<u>71.1</u>
<u>2½% p.a. disc.</u>	Forward 3-months	<u>2 1/16% p.a. disc.</u>
<u>14½%</u>	Euro-\$ 3-months	<u>14 3/8%</u>
<u>½% pre.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>1.7023</u>	\$/DM	<u>1.7142</u>
<u>3.82½</u>	£/DM	<u>3.88 3/16</u>
<u>8.98½</u>	£/FF	<u>9.09 5/16</u>
<u>237.30</u>	\$/Yen	<u>235.45</u>
<u>\$617.00</u>	Gold	<u>\$609.50</u>
<u>1.5645</u>	\$/S.Fc.	<u>1.5762</u>
<u>3.51½</u>	£/S.Fc.	<u>3.56 15/16</u>