

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 16th January 1980

Periods of considerable strength for sterling alternated with spells of profit-taking, leaving the effective index 0.8% up at 71.7 after a 4½-month high of 72.1. The dollar improved against most other currencies.

Having closed the previous period at a firm 2.2680, sterling softened before the weekend in a quiet market, receding to 2.2522 in New York on Thursday evening before closing on Friday at 2.2572. Modest professional selling was seen; the CGBR was unhelpful if anything. However, buyers returned refreshed on Monday morning: commercial and professional demand, some of Middle Eastern origin, drove the rate above 2.28 on Monday and then, reinforced from New York, to 2.2950 on Tuesday afternoon, the highest since late July. The trade figures were well received; high interest rates and oil continue to benefit sterling, the steel strike and the industrial situation generally seeming to have little effect. Business was sometimes very active. Sterling fell back against a stronger dollar late on Tuesday, before trading more quietly, if still rather unevenly, on Wednesday, when earnings figures caused some disappointment. The rate closed the period at 2.2773, an increase of just under a cent. The pound gained about 1½ on the Continent, closing at 3.92½, 9.18 7/8 and 3.61½ against the mark, French franc and Swiss franc respectively. Against the ECU sterling went to 1.5783, a premium of 2 3/8% on the notional central rate. A rise in the cost of forward cover to 2½% exceeded the fall in eurodollar rates, so the covered differential in favour of sterling on the usual three months' comparison narrowed to 1/4%.

The dollar had a good week, gaining in most centres both before and after the weekend, although it closed below the best. It may have been that earlier short sellers decided to close their positions in the absence of worse news. Economic news from the USA had little effect. The Fed bought just \$20 mn. The Bundesbank again sold dollars - \$110 mn. - to cover capital exports. The mark eased to 1.7235 (after 1.7340). Herr Poehl warned that the current account deficit would grow. The French franc (5/8% weaker at 4.0345) led the EMS throughout, closing 1 13/16% above the Belgian franc (27.98 and 66 on the divergence indicator). The French bought \$10 mn.; the Belgians; still in political trouble and worried about their currency's divergence, sold \$110 mn. before the weekend. The lira also eased, to 805.87, without intervention. The Irish sold some £20 mn.; their punt closed at 2.1410, a wider 6% discount on sterling. The Danes gave their crown \$50 mn. of support. Outside the EMS, the Swiss franc weakened to 1.5867. Some of the buying of sterling was against it. The Bank of Canada added \$210 mn. to reserves, but the Swedish crown required another \$180 mn. of support. The yen eased back to 237.50.

Gold went from strength to strength, particularly after it became clear that no early resumption of U.S. gold auctions would take place. The price increased \$81 between Tuesday's close and the first Wednesday fixing (a record \$765). In the week the price rose a net \$152½ to \$760, a leap of over 25%.

17th January 1980.

PAB

B.

J.

RATES, ETC.

10.15 a.m.

10.15 a.m.

10th January

17th January

2.2645

£/\$

2.2575

71.1

Effective exchange rate index

71.2

2 1/16% p.a. disc.

Forward 3-months

2 11/16% p.a. disc.

14 3/8%

Euro-\$ 3-months

13 15/16%

5/16% pre.

I.B.Comparison

3/16% pre.

1.7142

\$/DM

1.7235

3.88 3/16

£/DM

3.89 1/16

9.09 5/16

£/FF

9.11 7/8

235.45

\$/Yen

238.80

\$609.50

Gold

\$725

1.5762

\$/S.Fc.

1.5877

3.56 15/16

£/S.Fc.

3.58 3/8