FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 30th January 1980

An uneven week left sterling 0.1 lower in effective terms at 71.7, after 72.1 on Thursday and 71.3 on Tuesday morning. Higher interest rates and the absence of fresh scares abroad sent the dollar higher in most centres despite disappointing economic statistics.

With little evidence of overseas interest in the new tap stocks, sterling traded quietly on Thursday, rose to 2.2816 the following morning (just over 1/4 cent higher than at the close on Wednesday), but then slumped to 2.2652 in late trading on Friday when North Americans sold the pound. A similar pattern emerged on Monday - a quiet market at first, albeit at a lower level, then substantial selling from Chicago which drove the rate down to 2.2460. The dollar was firmer generally, but the steel strike seemed to focus the pressure on sterling. Later, however, a rise in oil prices announced by Saudi Arabia and the Gulf States and a possible turn for the better in the steel strike revived buying interest in sterling; earlier sales were reversed and sterling recovered to close the week at 2.2655, a net fall of 1¼ cents. The pound yielded a little ground against the mark (3.93¼) and the French franc (9.20½), but improved against the Swiss franc (3.67¼). Against the ECU sterling went to 1.57½, a 2⅛% premium on the notional central rate. Three months' euro-dollars, interbank sterling and the cost of cover all rose (the last to 3¼%); the intrinsic premium on sterling fell to 1/16%.

Higher interest rates - all leading prime rates are now back to 15 1/4% - and perhaps a slight easing of tension in the world's trouble spots led the dollar to advance in most centres before the weekend despite disappointing money and price figures. December trade results, published on Tuesday, were also markedly worse than expected, and the dollar at last retreated, although it staged a recovery on Wednesday. The Fed bought $10 mn. The Bundesbank once again sold dollars - $200 mn. - to cover capital exports. However, they agreed with the banks a slight tightening of control on inflows. The German trade surplus fell. The mark closed 1/2% weaker on balance, at 1.7357. The French franc, 1/4% weaker at 4.0630, remained leading currency in the EMS, 1⅞% above the Belgian franc (28.19 and 71 on the divergence index). The French bought $110 mn. and $60 mn.-worth of marks; the Belgians sold $120 mn. and $50 mn.-worth of French francs. The other EMS currencies traded without feature. The lira firmed to 806.75; the Danes gave their crown (5.4250) another $80 mn. of support. Outside the EMS, the Swiss franc softened to 1.6207; the SNB sold $60 mn. Another large deficit on current account sent the yen back to 239.25. The Swedish and Norwegian crowns continued under pressure and the Bank of Canada gave their currency $50 mn. of support.

Gold steadied up after the excitement of the previous week, although the fixings still ranged over almost $100 - between $717 on Thursday and $624 on Monday. Higher oil prices then gave the metal a boost, and it fixed at $691 on Wednesday afternoon for a net fall of $4 over the week. Trading hours were curtailed in the Swiss and Hong Kong markets for dealers to catch up with paperwork.

31st January 1980.
PAB

RATES, ETC.

10.15 a.m. 24th January		10.15 a.m. 31st January
2.2792	£/$	2.2673
72.0	Effective exchange rate index	71.8
3 1/16% p.a. disc.	Forward 3-months	3⅛% p.a. disc.
14⅜%	Euro-$ 3-months	14⅜%
⅛% disc.	I.B.Comparison	3/16% pre.
1.7298	$/DM	1.7401
3.94¼	£/DM	3.94½
9.23	£/FF	9.23⅜
238.60	$/Yen	239.10
$710	Gold	$670
1.6054	$/S.Fc.	1.6256
3.65⅞	£/S.Fc.	3.68 9/16