

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 6th February 1980

Lively demand for sterling after the weekend drove the effective index up nearly 2% to 73.0, the highest since late July. The dollar began firmly but later retreated.

Sterling drifted down to 2.2643 on Thursday morning, slightly below the close on 30th January, but this proved to be the lowest level of the period. At first trading was quiet. The pound was marked up on the news that the Iranians would raise their oil price; fell back briefly when the Lords reversed the Appeal Court's judgment on picketing private steel firms; but closed for the weekend comfortably enough at 2.2707 against a generally stronger dollar. Commercial and professional demand for sterling built up on Monday, with Chicago operators anxious to close short positions late on. Tuesday was an active day, with a good two-way market. But for the banking figures, sterling might have breached 2.30 then; in fact it did not do so until Wednesday, the 2.3105 recorded during the afternoon being the highest since last July, despite reports that British Leyland workers would strike unless Mr. Derek Robinson was reinstated. Sterling closed at 2.3080, a rise of 4½ cents in the week, with more buying from Chicago. A tight domestic money market undoubtedly contributed to the demand. DM 4.00 seemed as much a barrier as 2.30 against the dollar, until it too was passed on Wednesday; the mark cross-rate closed at 4.00½, a rise of some 1½% in the week. The pound also rose elsewhere, to 9.37½ against the French franc and to 3.71½ in Switzerland. Against the ECU sterling went to 1.60½, a premium of 3¼% on the notional central rate. Euro-dollar rates rose; the cost of forward cover shrank to 3%, but sterling went to a small intrinsic discount of 1/16%.

A fall in money supply, higher interest rates, and, perhaps, a lull in the Middle and Near East helped the dollar to gain in most centres before the weekend, although it subsequently retreated, quite sharply on Wednesday, to close mixed. The need for dollars to pay for more expensive oil (most producers now having raised prices since the last OPEC meeting) no doubt contributed to the earlier firmness. The Fed did not intervene. The Bundesbank however sold \$100 mn. to support the mark, which, temporarily at least, seems to have lost some of its appeal. It closed little changed at 1.7347 after 1.7481. The French franc (4.0625) and the lira (807.32, and helped by tightness in the money market) vied for top place in the EMS. The franc closed there 1½% above the Belgian franc (28.15 and 68 on the divergence index). The French bought \$90 mn.; the Belgians sold \$10 mn. and \$100 mn.-worth of French francs. It was the Danish crown however which felt the chill of devaluation talk - another \$300 mn. was spent before the rate closed at 5.4275. The other EMS currencies traded without feature: the Dutch bought some \$50 mn.-worth of marks; the Irish sold a similar amount of sterling. Elsewhere, the Swiss franc was under some pressure until it improved sharply on Wednesday. The SNB spent \$40 mn. (net) to keep their mark cross-rate below SF 0.94; it closed at SF 0.92½ (1.6112 against the dollar). However, they bought dollars on the swap to relieve the money market. The Swedish crown was less acutely uncomfortable. The Canadian dollar was mixed: on balance the central bank bought \$80 mn. The yen closed ¼% weaker at 239.83 without intervention.

A report that the Russians would soon withdraw from Afghanistan gave gold a softer appearance before the weekend, but the price recovered to fix at \$709 on Wednesday afternoon, a net rise of \$18 in the period. The IMF auctioned 444,000 ozs. at an average price of \$712.12.

B.

Jim

RATES, ETC.

10.15 a.m.

10.15 a.m.

31st January

7th February 1953

2.2673

£/\$

2.3067

71.8

Effective exchange rate index

73.0

3½% p.a. disc.

Forward 3-months

2¼% p.a. disc.

14¾%

Euro-\$ 3-months

14 7/16%

3/16% pre.

I.B.Comparison

5/16% pre.

1.7401

\$/DM

1.7377

3.94½

£/DM

4.00%

9.23¾

£/FF

9.38¼

239.10

\$/Yen

240.00

\$670

Gold

\$703.50

1.6256

\$/S.Fc.

1.6127

3.68 9/16

£/S.Fc.

3.72