

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 13th February 1980

Industrial news, poor wholesale price figures, and conditions in the money market kept sterling on the move, but no trend developed and the effective index closed unchanged at 73.0 after 73.2 (a new 6 month high) and 72.8. The dollar was a touch firmer elsewhere.

From the London close of 2.3080 on 6th February, sterling rose (over $\frac{1}{2}$ cent) in New York, and then opened firmly on Thursday morning. Buyers soon carried the rate up to 2.3155, but this proved to be the high of the week. A newspaper report in Kuwait that the hostages would soon be released by the Iranians caused the dollar to gain on all fronts, and sterling softened more than most, British Leyland having refused to reinstate Mr. Derek Robinson. Breakdown of the steel talks brought some more selling of sterling on Friday, and 2.2930 was seen before the close was taken for the weekend at 2.2976. A return to work at Hadfields' steelworks and, perhaps, higher sterling money-market rates, led the pound to open firmer on Monday. The (favourable) CGBR figures had little effect; the large increase in wholesale prices was disappointing, but selling was light until a vote to reject British Leyland's pay offer drove the rate down to 2.2940 in an otherwise quiet market on Tuesday. News that BP were increasing the price of their North Sea oil by \$4 brought renewed firmness, however, and sterling closed the period at 2.3062. Traders in Chicago were prominent on both sides at various times. Sterling was little changed on the Continent, closing at 4.00 $\frac{1}{2}$, 3.71 $\frac{1}{2}$ and 9.37 $\frac{1}{2}$ against the mark, Swiss and French francs respectively. Against the ECU it went to 1.6021, a premium of 3 13/16% on the notional central rate. Interbank sterling rates rose sharply until a facility for the banks to sell and buy back government bonds was announced on Wednesday; rates then fell to close slightly lower on the week. An increase to 3 3/16% in the cost of forward cover widened the covered differential against sterling to $\frac{1}{2}$ %.

As usual, the dollar responded to rumours and conflicting reports from Iran and Afghanistan, closing rather firmer for choice. Money figures (newly defined) showed a modest increase. Further signs appeared that the US economy is still buoyant. The Fed did not intervene in the exchanges. The Bundesbank sold \$70 mn. to cover capital exports. The mark eased to 1.7361 (after 1.7428). The French franc (4.0647) and the lira (805.20) vied for top place in the EMS, the former closing there 1 $\frac{1}{2}$ % above the Belgian franc (28.16 and 70 on the divergence indicator). The lira was the only one of these currencies to gain on the dollar; the Italian money market remains tight. The Belgians sold \$40 mn.-worth of French francs; the French bought \$70 mn. The Danish crown (5.4350) received nearly \$200 mn. of support, mostly in the form of sales of dollars - this being rather less than in the previous week; the Dutch on the otherhand added \$40 mn. to reserves and bought some marks. Their guilder and the Irish pound traded without feature. Outside the EMS, the Swiss franc was steady at 1.6112 (SF.0.92 $\frac{1}{2}$ against the mark). The Swedish crown was under less strain, but yen weakened by 1% to 242.05, partly on poor wholesale prices. The Bank of Japan sold \$160 mn. Talk of a rise in discount rate revived.

Gold had its quietest week of the year, drifting down by \$12 $\frac{1}{2}$ to \$696 $\frac{1}{2}$ at the Wednesday afternoon fix.

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>7th February</u>		<u>14th February</u>
<u>2.3067</u>	£/\$	<u>2.3080</u>
<u>73.0</u>	Effective exchange rate index	<u>73.1</u>
<u>2½% p.a. disc.</u>	Forward 3-months	<u>3 3/16% p.a. disc.</u>
<u>14 7/16%</u>	Euro-\$ 3-months	<u>14 11/16%</u>
<u>5/16% pre.</u>	I.B.Comparison	<u>5/16% disc.</u>
<u>1.7377</u>	· \$/DM	<u>1.7328</u>
<u>4.00½</u>	· £/DM	<u>3.99 15/16</u>
<u>9.38½</u>	£/FF	<u>9.36 9/16</u>
<u>240.00</u>	\$/Yen	<u>243.20</u>
<u>\$703.50</u>	Gold	<u>\$688.50</u>
<u>1.6127</u>	\$/S.Fc.	<u>1.6126</u>
<u>3.72</u>	£/S.Fc.	<u>3.72 3/16</u>