FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 20th February 1980

A week of poor economic and mixed industrial news left sterling ¾% lower in effective terms at 72.5, the rate having ranged between a 6-month high of 73.3 on Thursday and 72.3 on Tuesday. Tighter monetary policy enabled the dollar to improve in most centres.

Sterling began quietly enough, but soon met lively demand on investment account which pushed the rate up to 2.3155 on Thursday afternoon, nearly 1 cent above the previous London close. Poor retail price figures had little effect; but the trade figures and the 1% increase in US discount rate on Friday afternoon caused sterling to shed the previous day's gains and more, and the official close for the weekend was struck at 2.3010, although sterling subsequently relapsed to 2.2865 in late trading. Monday, a holiday in the Far East and the USA, was quiet and featureless. The pound came under widespread selling pressure the next day, however, seemingly in response to US interest rates and the industrial and inflation scene at home; the rate fell to 2.2670 at one point in the afternoon before reacting to 2.2705 at the close by when the storm had blown itself out. Helped by news that British Leyland workers would not strike for Mr.Derek Robinson's reinstatement, and then by a planned cut in Kuwaiti oil production, sterling traded up to 2.2823 on Wednesday before closing the period at 2.2780, a net fall of 2¾ cents. The pound lost ground on the Continent, closing at 3.97⅞, 3.72⅞ and 9.32 against the mark and Swiss and French francs respectively; against the ECU it went to 1.5939, a premium of 3 5/16% on the notional central rate. Euro-dollars rose to record levels, but the cost of forward cover shrank to 2% leaving the covered differential against sterling on the usual 3-months' comparison narrower at 5/16%.

A 1% increase in discount rate, to a record 13%, and subsequent increases in market rates (with many leading banks raising prime rate by ½% to 15¾%) caused the dollar to improve in most centres, though a large increase in money supply and poor inflation figures softened the effect. The Fed did not intervene. The mark eased 0.6% to 1.7464 (after 1.7505); the Bundesbank sold $290 mn. to cover capital exports. The lira (808.77) and the Belgian franc (28.37 and 74 on the divergence index) were top and bottom of the EMS which stretched to 2%. Poor trade and inflation figures left the lira unmarked. The Belgians however were forced to sell the equivalent of $150 mn. in marks, French francs and guilders. A 2% increase in bank rate (to 13%) took some pressure off the Danish crown, the central bank having given it another $150 mn.-worth of support by selling dollars and French francs. The other EMS currencies traded without feature, all easing against the dollar, the French franc for example by ⅝% to 4.0912. Administered interest rates rose in France. Outside the EMS, the Swiss franc weakened, although the announcement that the banks could pay interest on foreign deposits brought some gains; it closed 1½% easier on balance at 1.6367. A long-awaited 1% increase in discount rate, to 7¼%, did not help the yen much: it too weakened 1½% to 245.85 after $470 mn. of support. The latest trade figures, although superficially bad, were the best for some time after seasonal adjustment. Mr.Trudeau's convincing election win gave the Canadian dollar a lift: it was the only major currency to improve against the US unit, and the Bank of Canada added $140 mn. to reserves.

With international tensions seeming to relax, gold fell against the advancing dollar, by $90¼ to $606 at the fixing on Wednesday afternoon, although it later recovered to $632.

20th February 1980
PAB

RATES, ETC.

10.15 a.m.		10.15 a.m.
14th February		21st February
2.3080	£/$	2.2823
73.1	Effective exchange rate index	72.7
3 3/16% p.a. disc.	Forward 3-months	2⅛% p.a. disc.
14 11/16%	Euro-$ 3-months	16⅛%
5/16% disc.	I.B.Comparison	9/16% disc.
1.7328	$/DM	1.7458
3.99 15/16	£/DM	3.98 7/16
9.36 9/16	£/FF	9.34⅜
243.20	$/Yen	246.00
$688.50	Gold	$646.00
1.6126	$/S.Fc.	1.6405
3.72 3/16	£/S.Fc.	3.74⅜