

G.P.S.

CR 12/7

Mr Smeaton

The Governor

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Copies to: Mr. Loehnis
Mr. SangsterForeign Exchange and Gold Markets
7-11 July 1980

With widespread fears of lower US interest rates, sterling was in good demand on Monday and Tuesday, helped by the modest 1% increase in the wholesale prices index for June. The rate went to 2.3850 on Tuesday morning, the highest level for five years, before meeting some profit-taking. It then fell back to trade narrowly in quiet markets around 2.37½. Euro-dollar rates rose by ¼% to 9 7/16% but with the discount on forward sterling narrowing to 6¼% p.a., there was interest parity.

The phasing out of the Fed's credit control measures and the unexpected fall in the US money supply announced on Monday put the dollar under pressure on Monday and Tuesday as the market looked for lower US interest rates following this week's FOMC meeting. However, when the Fed's open market tactics appeared to rule out any further easing, the dollar recovered a little, aided by some central bank support. EMS was relaxed, the lira narrowing the gap with the French franc to 3¼%.

With the dollar weak and fighting intensified in Afghanistan, gold was bid up to \$690 on Tuesday before fixing at \$668½. Heavy selling then took the price back almost to \$650, but the metal finished fairly firm at \$667.

11th July 1980
T.R.S.

Main Exchange Rates

	<u>4th July</u>	<u>11th July</u>
<u>\$</u>	(close)	(close)
£	2.3540	2.3775
DM	1.7525	1.7394
SF	1.6087	1.5977
FF	4.0660	4.0380
Yen	218.90	217.55
<u>£</u>		
DM	4.12½	4.13½
SF	3.78¾	3.79¾
FF	9.57½	9.60
£ effective	74.1	74.5
Gold	\$666½	\$667

Intervention Abroad (main items)

U.S.A.	+\$434	trk
Switzerland	+ 160	
Denmark	+ 113	
Sweden	- 275	

EEA transactions

Operations + \$298 mn. (o/w new PS borrowing + 59)

The increase in the spot reserves so far this month is \$259 mn.
after net public sector debt repayments of \$149 mn.