

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 6th August 1980

The dollar remained strong until after the weekend when a sharp fall in the Federal Funds rate brought some reaction. Sterling, however, was firm throughout the period and gained support from an unchanged Minimum Lending Rate. The Banking Statistics had no impact and the pound finished the week around best levels. The ERI rose from 74.8 to 75.2.

The pound began the week at 2.3475, having fallen in New York late on Wednesday before a stronger dollar. With the dollar's strength continuing, sterling fell to 2.3245 on Thursday before European central bank intervention induced profit-taking in the dollar. The unchanged Minimum Lending Rate, too, assisted sterling's recovery. Eurodollars were sharply firmer on Friday and sterling retreated again to 2.3240 as the dollar gained ground. After the weekend, however, sterling met good demand from the Middle East and, when the dollar fell back on Tuesday in response to lower US interest rates, sterling advanced to its best levels, touching 2.3748 on Wednesday before finishing the week at 2.3735. The pound was 9/16% better against the French franc at 9.73 and 3/8% firmer against the deutschemark at 4.20 1/2. However, it gained less than 1/8% against the Swiss franc at 3.87 1/2. Against the ECU sterling finished at 1.6624, a premium of 7 1/2% on the notional central rate. Eurodollars were around 1/8% firmer. Sterling deposits, too, were better bid by around 1/8%. The cost of 3-months' cover rose to 6 9/16% p.a. and the covered differential moved to 3/16% against London.

The wide fluctuations in domestic US interest rates (Federal Funds ranged from 6%-11%) dictated the course of events for the dollar. On balance it ended the period unchanged against the deutschemark (1.7710) but a little easier against the Swiss franc (1.6310). The Federal Reserve sold around \$150 mn. (net), mostly for deutschemarks, while the Bundesbank sold \$130 mn. (net). The Swiss, however, spent only \$45 mn. The Irish punt (2.1315) seized leadership of the EMS on Friday but the French franc (4.0992) had restored the status quo by the close, standing 2 15/16% above the lira (835.75). The Irish took in \$90 mn. and the Italians bought around \$150 mn. (net). The French purchased \$120 mn. and deutschemarks worth \$100 mn. Elsewhere, settlement of the dispute with Alberta brought a marked improvement in the Canadian dollar and the authorities were able to recoup over \$175 mn. The yen was rather steadier this week and, after touching 228.50 on Thursday, finished the period at 225.46.

Gold was a little better after the weekend, as the dollar declined, and traded up to \$639 on Tuesday. The announcement of Canadian plans to sell a further 1 mn. ounces from reserves then depressed the metal and the final fixing of the week set a level of 627.75.

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7th August 1980.  
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RATES, ETC.

10.15 a.m.

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<u>30th July</u>		<u>7th August</u>
<u>2.3370</u>	£/\$	<u>2.3702</u>
<u>74.5</u>	Effective exchange rate index	<u>75.3</u>
<u>5½% p.a. disc.</u>	Forward 3-months	<u>6¾% p.a. disc.</u>
<u>9 15/16%</u>	Euro-\$ 3-months	<u>10 3/16%</u>
<u>3/16% disc.</u>	I.B. Comparison	<u>¼% disc.</u>
<u>1.7844</u>	\$/DM	<u>1.7772</u>
<u>4.17</u>	£/DM	<u>4.21¼</u>
<u>9.65½</u>	£/FF	<u>9.75½</u>
<u>227.42</u>	\$/Yen	<u>225.35</u>
<u>\$619</u>	Gold	<u>\$634</u>
<u>1.6500</u>	\$/S.Fc.	<u>1.6370</u>
<u>3.85½</u>	£/S.Fc.	<u>3.88</u>