

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 13th August 1980

The exchanges sailed into the summer doldrums this week and most currencies floated within a narrow range. Sterling remained very firm and reached its highest level for nearly 4 years against the deutschemark, but sellers were readily found at the more exalted levels. The ERI rose from 75.2 to 75.5 after setting a record 75.7 on Friday.

The pound began the week at 2.3738 and traded quietly on Thursday, easing gently before a firmer dollar. The unchanged minimum lending rate had no effect. Rumours of an impending increase in Saudi oil prices boosted both pound and dollar on Friday morning and sterling made sizeable gains against the other European currencies. However, with the deutschemark trading at 4.24½ - sterling's best level for nearly 4 years - commercial and professional offerings were induced and the pound backed off. Since the weekend sterling has traded quietly, tending to reflect the dollar, in a narrow range around 2.37. The rate dipped to 2.3650 on Tuesday morning but recovered to 2.3831 on Wednesday before finishing the week at 2.3790. Sterling gained ¼% against the Swiss franc (3.90) and the deutschemark (4.23½) and ¼% against the French franc (9.81). Against the ECU the pound closed at 1.6727, a premium of 7¼% on the notional central rate. Eurodollar deposits fluctuated in response to the volatile movements in Federal funds but finished the period little changed on balance. Short-term sterling deposits were easier but the longer dates closed somewhat firmer. The three-months' deposit, however, was unchanged. The cost of three months' cover fell by over ½% to 5 15/16% p.a. and this produced interest parity.

The dollar continued to move in response to interest rate trends and finished the period generally a little better. The Swiss franc closed at 1.6395 and the deutschemark at 1.7787. The Federal Reserve sold \$75 mn. net, mostly against deutschemarks, and the Bundesbank sold \$50 mn. EMS widened to 3¼%, at one stage with the French franc (4.1237) and the punt (2.1202) rotating the lead between themselves. The French franc and the lira (840½) spanned the system at the close and the band had narrowed to 2¼%. The French took in deutschemarks worth around \$100 mn., the Dutch bought \$65 mn. and the Irish \$34 mn. The Italians sold \$73 mn. Elsewhere the Japanese yen met strong demand from the United States and Switzerland after the weekend and touched 222.50 before finishing the week at 223.80. The Swedes continued to lose reserves, selling over \$100 mn. and deutschemarks worth \$67 mn. The Canadians, too, sold \$50 mn. (net) but the Norwegians took in nearly \$70 mn.

Gold traded initially without feature but, in the absence of any increase in Saudi oil prices, was sold after the weekend. As often, support was found near the \$600 level and, after fixing at \$605 on Tuesday afternoon, the metal recovered to \$615.25 at the final fixing on Wednesday, a net loss of \$12½ on the week.

14th August 1980.
J.G.H.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>7th August</u>		<u>14th August 1980</u>
<u>2.3702</u>	£/\$	<u>2.3762</u>
<u>75.3</u>	Effective exchange rate index	<u>75.5</u>
<u>6$\frac{3}{8}$% p.a. disc.</u>	Forward 3-months	<u>5$\frac{7}{8}$% p.a. disc</u>
<u>10 3/16%</u>	Euro-\$ 3-months	<u>10 7/16%</u>
<u>$\frac{1}{8}$% disc.</u>	I.B.Comparison	<u>3/16% pre.</u>
<u>1.7772</u>	\$/DM	<u>1.7816</u>
<u>4.21$\frac{1}{4}$</u>	£/DM	<u>4.23$\frac{3}{4}$</u>
<u>9.75$\frac{1}{2}$</u>	£/FF	<u>9.80$\frac{1}{4}$</u>
<u>225.35</u>	\$/Yen	<u>223.90</u>
<u>\$634</u>	Gold	<u>\$622</u>
<u>1.6370</u>	\$/S.Fc.	<u>1.6405</u>
<u>3.88</u>	£/S.Fc.	<u>3.89$\frac{1}{4}$</u>