

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 27th August 1980

In mostly rather quiet markets, oil re-emerged as a major influence on exchange rates. The announcement of a significant new find in the North Sea sparked off some strong commercial demand for sterling and the ERI rose from its previous high of 75.7 to a record 76.2. Meanwhile, the dollar firmed gently in most centres, other than London and Tokyo.

After closing in New York on Wednesday night at 2.3717, sterling opened in London on Thursday at 2.3704. Against an improving dollar the rate drifted down to touch 2.3620 on Friday morning before a re-run of the rumour that some of the US hostages in Iran had been shot caused it to be marked up by  $\frac{1}{2}$  cent. It closed firm before the long weekend at 2.3678. Markets were very quiet on Bank Holiday Monday but on Tuesday sterling strengthened against a slightly easier dollar and then moved up sharply in the afternoon following an announcement from Texaco that they had made a promising new oil discovery in the North Sea. The rate went through 2.38 and the upward movement continued that night in New York. On Wednesday, the unemployment figures were largely ignored and sizeable commercial buying from the Middle East and elsewhere took the rate to 2.3963 in the afternoon. After some profit-taking, sterling ended the period very firm at 2.3925, a rise of  $2\frac{1}{2}$  cents on the week. The pound also gained ground against the continental currencies rising by  $1\frac{1}{2}\%$  against the French franc (10.00 $\frac{1}{2}$ ), by  $1\frac{1}{2}\%$  against the deutschemark (4.30 $\frac{1}{2}$ ) and by  $1\frac{1}{2}\%$  against the Swiss franc (3.97 $\frac{1}{2}$ ). Against the ECU sterling went to 1.7007, a premium of  $9\frac{1}{2}\%$  on the notional central rate. Euro-dollar rates rose by  $1\frac{1}{2}\%$ , three-months deposits closing at 11 11/16%. The cost of cover fell to 4 15/16% and with sterling inter-bank rates little changed the covered differential narrowed to 1/16% in favour of sterling.

US interest rates moved up throughout the week as Fed action suggested some tightening of credit. Prime rates went to 11 $\frac{1}{2}\%$  on Friday, with Chase Manhattan the first to 11 $\frac{1}{2}\%$  on Tuesday, and Federal Funds moved to 10%. The dollar strengthened a little in most centres and the Fed sold \$115mn. principally against deutschemarks. The Bundesbank sold \$40mn. and the mark eased to 1.7988. The French franc (4.1812) weakened in the EMS and the florin (1.96) went to the top, just ahead of the punt (2.0942). The lira (855.87) was again under some pressure,  $3\frac{7}{16}\%$  adrift and the Bank of Italy sold \$340mn. in support. Outside EMS, the Swiss authorities continued to act to ease liquidity pressures and the franc was a little softer at 1.6599. The yen moved against the trend, rising by  $2\frac{1}{2}\%$  over the week to 219.55 on the back of buying from the Middle East and Hong Kong. There was no intervention by the Bank of Japan. The Swedish crown continued under pressure and received a further \$70mn. in support but the Norwegians were able to add \$260mn. to their reserves.

Gold moved rather more narrowly than for several weeks past but the market remained nervous of developments in Poland. The first fixing was at \$640.50 and although the price at first moved somewhat higher, the metal soon settled down to trade quietly around \$630. The final fixing was at \$633.85, almost unchanged on the week.

27th August 1980.

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>21st August</u>		<u>28th August</u>
<u>2.3670</u>	£/\$	<u>2.3922</u>
<u>75.7</u>	Effective exchange rate index	<u>76.1</u>
<u>5<math>\frac{1}{8}</math>% p.a. disc.</u>	Forward 3-months	<u>4 9/16% p.a. disc.</u>
<u>11%</u>	Euro-\$ 3-months	<u>11<math>\frac{1}{4}</math>%</u>
<u><math>\frac{1}{2}</math>% pre.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>1.8022</u>	\$/DM	<u>1.7933</u>
<u>4.26<math>\frac{1}{8}</math></u>	£/DM	<u>4.29</u>
<u>9.87<math>\frac{1}{2}</math></u>	£/FF	<u>9.98<math>\frac{1}{8}</math></u>
<u>224.85</u>	\$/Yen	<u>218.47</u>
<u>\$643</u>	Gold	<u>\$633</u>
<u>1.6645</u>	\$/S.Fc.	<u>1.6532</u>
<u>3.94</u>	£/S.Fc.	<u>3.95<math>\frac{1}{2}</math></u>