

GPS

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Foreign Exchange and Gold Markets
13th-28th August 1980

Markets were generally quiet, with business frequently at a low ebb. Sterling was mostly very firm, touching a record 76.3 in effective terms on 28th before slipping back to 75.9 at the close on profit-taking. For a large part of the period the pound traded quietly in the range 2.36-2.38½, virtually unaffected by the publication of a number of economic indicators, including the good July trade figures (18th), the large PSBR for the first quarter of the FY (21st) and the unemployment figures (27th). However, an announcement from Texaco on 26th that they had made a promising new oil discovery in the North Sea sparked off some strong commercial demand for sterling. The rate went to 2.3963 on 27th and the £/DM rate to over 4.30, the highest level for five years. The rate came back to 4.27 on 28th on some professional selling out of Europe and the Middle East. Euro-dollar rates rose by 1% to 11 13/16% but with the cost of cover falling to 4½%, sterling's intrinsic discount turned into a premium of ½%.

Following a record increase of \$8.2bn. (later revised to \$9.6bn.) in MIA on 15th August, US domestic rates moved up sharply: prime rates went to 11½% in two stages and Federal Funds to 10½%. The dollar firmed in most centres except London and Tokyo but eased back on 28th in advance of President Carter's statement on the economy. EMS remained around 3½%, the lira continuing to require support at the bottom. The florin replaced the French franc at the top. The yen rose by 2½% on the back of good demand from the Middle East and Hong Kong. The Swedish crown continued to receive modest support but the Norwegians were able to add significantly to their reserves.

Gold was mostly fairly quiet but the price moved up from just above \$600 to trade around \$630 on fears that the Russians might interfere directly in Poland. The final fixing was at \$633.85.

29th August 1980.

TRS

Main Exchange Rates

	<u>12th August</u> (close)	<u>28th August</u> (close)
<u>\$</u>		
£	2.3725	2.3900
DM	1.7806	1.7870
SF	1.6403	1.6460
FF	4.1257	4.1562
Yen	222.92	218.00
<u>£</u>		
DM	4.22½	4.27½
SF	3.89½	3.93½
FF	9.78½	9.93½
£ effective	75.3	75.9
Gold	\$605	635.30

Intervention Abroad (main items) (\$mns.)

Norway	+	580
Italy	-	540
Sweden	-	242
USA	-	130
Germany	-	114

EEA Transactions (\$mns.)

Operations	+	331	(market	+127)
Forward book	+	414		

The increase in the spot reserves in August so far is \$17mn. after net repayments of public sector debt of \$194mn.