

FOREIGN EXCHANGE AND GOLD MARKETS
Fortnight ending 2nd January 1980

Sterling traded firmly for the most part in seasonally thin markets, gaining $\frac{1}{4}\%$ in effective terms to 70.2 after 69.5. Higher oil prices and the coup in Afghanistan contributed to the dollar's general weakness, but on balance it received little official support.

From 2.2045 at the London close on 19th December, the pound eased at first on some commercial selling, touching 2.1930 on Friday 21st. The news that weekend that Iran would withdraw some deposits from London did no damage, and sterling closed on Christmas Eve at 2.2080. Good general demand drove the pound up to 2.2475 in New York on 27th December; sterling then drifted back under the threat of a steel strike, but recovered to 2.2330 at the close on 2nd January. The money supply figures early on had aroused little interest, and there was no other economic news of significance to the market. The pound went stronger against the mark (3.82 $\frac{1}{2}$) and in Paris (8.96 $\frac{1}{2}$), but softened against the Swiss franc. Against the ECU sterling closed at 1.5413. Easier conditions in the euro-dollar market brought a fall in interest rates there, but the discount on forward sterling widened to 2 7/16%, leaving the covered differential in favour of London on the usual 3 months' comparison unchanged at 3/16%.

The dollar weakened in most centres. Unco-ordinated increases in oil prices, a report that Nigeria will 'drop' the dollar, insurrection in Afghanistan on top of the troubles in Iran, all did some harm. The steep rise in the gold price rubbed off on the dollar too. On the other hand, US trade figures were better, and there were more signs that the economy is slowing down. The Fed bought \$450 mn. in the market, mostly as usual against marks. The Bundesbank, on the other hand, sold \$50 mn. on balance. The mark gained $\frac{1}{4}\%$ to 1.7129. The French franc (4.0157) closed top of the EMS, 1 13/16% above the Belgian franc (27.84) which was bottom throughout. The French bought \$180 mn. and \$30 mn.-worth of Belgian francs. The Belgians sold \$230 mn. and \$150 mn.-worth of French francs; their franc closed 65 divergent having been over 75. The Bank of Italy bought \$60 mn. as the lira improved to 800.90. The Irish pound, at 2.1560, a 3 $\frac{1}{4}\%$ discount on sterling, closed second bottom in the EMS; the central bank sold \$72 mn.-worth of sterling. Outside the EMS, the Swiss franc (1.58) was quite firm. The SNB bought \$50 mn. and also, like the Bundesbank, bought dollars on the swap to relieve the domestic money market. The Norwegian and Swedish crowns struggled, but the Canadian dollar had an easier time, allowing the central bank to add \$170 mn. to reserves. The yen was comparatively steady, closing at 238.40 without support.

Gold was a hectic market. Stop-loss selling brought a sharp fall at first; thereafter the metal rose more strongly than ever, affected by developments in the Middle East and Afghanistan and also by short-covering in silver. The \$559 $\frac{1}{2}$ on the afternoon of 2nd January set a record for the fix. Over the period the price rose \$65 $\frac{1}{2}$. The IMF auctioned 444,000 ozs. at an average price of \$562.85.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
20th December 1979		3rd January 1980
2.2035	£/\$	2.2494
69.7	Effective exchange rate index.	70.5
1½% p.a. disc.	Forward 3-months	2½% p.a. disc.
14 9/16%	Euro-\$ 3-months	14½%
5/16% pre.	I.B.Comparison	½% pre.
1.7348	\$/DM	1.7023
3:82¼	£/DM	3.82½
8.94½	£/FF	8.98½
238.55	\$/Yen	237.30
\$480.50	Gold	\$617.00
1.6090	\$/S.Fc.	1.5645
3.54½	£/S.Fc.	3.51½