

THE CHIEF CASHIER O/R *g*Copies to: Mr. Sangster  
Mr. Byatt  
Mr. Bull o/rGOLD AND FOREIGN EXCHANGE MARKETSFebruary 8th - 22nd 1980

Sterling was generally firm in the earlier part of the period, with bouts of relative softness occasioned by the Wholesale Price Index on the 11th and adverse developments in the industrial scene. The rate was never far from 2.30 and the ERI around 73.0. On the 14th sterling met strong demand as the buyer of Consolidated Gold Fields shares made settlement. Six month highs of 73.3 and 2.3155 were registered. On the 15th, however, while the RPI caused little stir, the 1% increase in the Federal Reserve Discount Rate (to 13%) and the poor January trade figures hit sterling and on the 19th, when US markets returned from a holiday, there was widespread selling of pounds. The rate fell to 2.2670 and the ERI to 72.3. The favourable vote at British Leyland and a planned 25% cut in Kuwaiti oil production provided a bolster, however, and the pound traded up to 2.2910 yesterday. At noon today, the rate was 2.2809 and the ERI was 72.8.

The dollar has been generally firm but gained further from the Discount Rate increase and stands today at its best levels of the period on the prospect of yet higher rates. The Italian lira and Belgian franc have spanned the EMS, between 1½% and 2%. The Belgians have intervened regularly to keep their franc at or above 75 on the index of divergence. This has cost them around \$300 mn. in deutschemarks, French francs and Dutch florins. The Danes spent \$340 mn. but the outflow was stemmed by a 2% increase in Bank Rate to 13%. The yen has continued to weaken, however, despite a 1% rise in Discount Rate to 7½%. The Japanese spent over \$600 mn. in support. Further relaxations in inflow controls gave only temporary comfort to the Swiss franc.

Gold has traded without spectacular feature and with no marked trend. An apparent improvement in the Iranian situation took the metal below \$700 on the 12th and it has since fluctuated between \$600 and \$700. Heavy support was evident at the lower levels.

Eurodollars stand at record levels. Three months' cover costs 1½% p.a.; three months eurodollars are 16 7/16% and, with inter-bank sterling deposits having eased to 17½%, the covered differential is 5/16% against London.

Over the period we have purchased \$24 mn. (net) in the market (selling \$107 mn. on the 19th). Central Banks however have given us \$445 mn. (of which Nigeria \$193 mn, Eire \$58mn, BIS \$47 mn, Iran \$40 mn, Kenya, India and New Zealand \$33 mn. each). This morning, February's reserve increase stood at \$715 mn. after public sector debt repayments of \$140 mn. We have today swapped out \$150 mn.

*g* 22nd February 1980  
JGH

EXCHANGE RATES

	<u>c.o.b. 7.2.80</u>	<u>Noon 22.2.80</u>
ERI	72.9	72.8
\$/£	2.3020	2.2809
\$/DM	1.7375	1.7552
\$/SF	1.6135	1.6520
\$/FF	4.07	4.1160
\$/Yen	239.85	246.85
£/DM	4.00	4.00 $\frac{3}{8}$
£/SF	3.71 $\frac{3}{8}$	3.76 $\frac{1}{4}$
\$/FF	9.36 $\frac{7}{8}$	9.38 $\frac{1}{4}$
Gold	\$699.25	\$643.50