FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 16th May 1979

Sterling continued soft throughout last week as the public sector pay awards seemed to presage higher inflation. Since the weekend, however, the tone has improved somewhat following the Queen's Speech. With the dollar particularly firm, sterling's ERI has risen from 66.7 to 66.8 (after 66.0 on Monday and 67.0 on Wednesday).

The pound opened at 2.0630 on Thursday but soon ran into selling on a broad front as dealers digested the inflationary implications of the accelerated pay awards to the police and armed services and the ominous portents contained in the previous day's banking figures. Sterling was sold down to 2.0493 before turning on news of an imminent rise in Iranian oil prices. Nonetheless selling was later resumed from the USA and, in a nervous market the following day, the pound traded as low as 2.0420. The CGBR and RPI proved unhelpful but an unexpected stimulus came from the Prime Minister's announcement that the UK would not join the EMS regime before September. The new week began nervously, with business down to 2.0405 but some buying interest developed at these lower levels although Americans remained bearish. On Tuesday, however, the Queen's speech gave buyers further encouragement and, when the Kuwaiti oil minister forecast another increase in oil prices, demand was renewed and the pound rose through 2.05, sparking stop-loss orders from American professionals. 2.0670 was paid on Wednesday morning but this level provoked profit-taking and sterling retreated again to close at 2.0615. Forward margins moved in sympathy with spot sterling. Overall the cost of three months' forward cover rose slightly to 1 5/16% p.a. but the covered differential against London was reduced from ¼% to ⅛%.

The dollar finished the week in fine form. Solomon's optimistic current account forecast was a support but the movement seemed largely a response to the weakness of other currencies and, in particular, the yen. This seemed to have reached the top of its trading range (having breached 212 in Tokyo on Thursday) and tended offered thereafter. Federal Reserve Chairman Miller's view that the yen was still under-valued was not heeded and the yen finished the week at 214.47 (after 215.22). The Bank of Japan sold only $330 mn. The April trade deficit ($361 mn.) was not helpful (although below some expectations). The Swiss franc weakened by ⅛% to 1.7272, the Swiss selling over $300 mn. The Federal Reserve bought deutschemarks equivalent to $230 mn. while the Bundesbank sold around $225 mn., much of which was in cover of capital exports. The deutschemark closed ⅛% weaker at 1.9061. The snake was relatively relaxed throughout the period and was usually around 2% in width. The Belgian franc (30.50) and Danish krone (5.3640) were, for the most part, at tail and top, although both the deutschemark and punt had brief spells at the head. The Belgians and Dutch together sold some $30 mn. and marks equivalent to $50 mn. to contain the mark's appreciation. The lira continued over 4% above the Belgian franc and closed at 850.65 (4⅛%). The Italians took in over $150 mn. The French franc (4.4010) looked a little soft at times, following the cancellation of Iranian export orders, and call money rates were raised. The French sold a few deutschemarks to keep the cross-rate within sight of 2.31. The Canadian dollar had a better week and closed at 86.51. The Canadians bought $90 mn.

Gold set record levels on Wednesday following the latest US Treasury auction. The metal traded up to $257.25 and fixed that afternoon at $256.50. The outlook for oil prices was a continuing bull factor.

17th May 1979.
JGH

RATES, ETC.

10th May		17th May
2.0527	£/$	2.0607
66.3	Effective exchange rate index	66.8
1¼% disc.	Forward 3-months	1 5/16% disc.
10 15/16%	Euro-$ 3-months	10⅜%
5/16% disc.	I.B.Comparison	⅛% disc.
1.8961	$/DM	1.9070
3.89¼	£/DM	3.93
8.98⅜	£/FF	9.08
213.55	$/Yen	215.40
$252.15	Gold	$257.85
1.7147	$/S.Fc.	1.7270
3.52	£/S.Fc.	3.55⅞

10.15 a.m.