

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 6th June 1979

Sterling was firm until some late profit-taking emerged, closing 0.4 higher in effective terms at 67.6 after 67.9. Bad trade figures caused the dollar only temporary embarrassment. The relative strength of the mark kept the weaker snake currencies pinned to the ropes.

From 2.0598 at the London close on 30th May, sterling advanced more than most against a dollar which was set back by unexpectedly poor trade figures. By Friday, however, sterling was in good demand although the dollar was generally better; and the firm tone was maintained after the weekend, despite the banking statistics and some disquiet ahead of the trade and balance of payments figures due on 8th June. The NIESR report was if anything well received; the reserves figures for May had little impact. Some selling developed on Wednesday afternoon, however, and the pound closed the period at 2.0737 after 2.0820 on Tuesday. Small changes in eurodollar and interbank sterling rates and the cost of forward cover took sterling to interest parity or slightly better on the usual 3 months' comparison.

Despite poor trade figures (a deficit of \$2.15 bn. in April), the dollar edged up in several centres. A sharp drop in leading indicators gave further evidence that the economy is slowing down; the Fed revealed that the US is now entirely free of swap debt for the first time since 1969; and continuing rises in oil prices helped the dollar, if only because buyers need more dollars to pay for supplies. An agreement between the US and Canada to consider extracting oil from tar sands may have been another factor. The Fed sold \$70 mn. in the market, entirely against marks. With further support amounting to \$180 mn. from the Bundesbank, the mark only shaded back, to 1.9154. The Bundesbank also raised lombard rate by $\frac{1}{2}\%$, simultaneously arranging to provide the banks with liquidity. The mark's relative strength in the snake greatly discomfited the Belgian and Danish authorities, who sold \$210 mn. - and \$130 mn.-worth of marks respectively to keep their franc and crown within the $2\frac{1}{2}\%$ band. The Bundesbank bought them in modest amounts, about \$50 mn.-worth altogether. They closed at 30.78 and 5.5315. The Danes sold \$80 mn. on top, but took no corrective measures, though a modest devaluation is talked of. The Belgians increased bank rate a further 1% to 8% the day before the Bundesbank raised lombard rate. On the divergence index, both the Belgian franc (92) and the Danish crown (86) finished well over the threshold of 75; the mark, on the other hand, scored a comfortable 29. Of the other snake currencies, the lira (despite Dr. Baffi's impending retirement and warnings about inflation) and the French franc both improved against the dollar, to 854.05 and 4.4260, after modest creaming for the reserves. The Dutch quickly followed the Belgians with an increase in bank rate, by $\frac{1}{2}\%$, but they nevertheless lost some ground to the dollar despite modest support. The Irish pound closed at 1.9682 after small net sales of sterling. The Swiss franc eased back to 1.7353 after \$140 mn. of support. The yen was steadier than of late, closing at 220 $\frac{1}{2}$ with no intervention; but disappointing trade and reserves figures forced the Bank of Canada to sell \$250 mn. to help their dollar. Sterling strengthened against the main continental currencies, for example by $\frac{3}{4}\%$ to 3.97 $\frac{1}{2}$ against the mark and over $\frac{1}{2}\%$ to 9.17 $\frac{1}{2}$ against the French franc.

In a hectic and nervous market, gold rose nearly \$10 over the week to \$280 at the afternoon session on 6th June. The \$280 $\frac{1}{2}$ fixed that morning is the highest so far, but the price touched \$281 $\frac{1}{2}$ between sessions. The IMF auctioned 444,000 ozs. at an average price of \$280.39.

7th June 1979.
PAB

RATES, ETC.

| <u>10.15 a.m.</u> | | <u>10.15 a.m.</u> |
|---------------------------------|-------------------------------|--------------------------|
| 31st May | | 7th June |
| 2.0648 | £/\$ | 2.0673 |
| 67.2 | Effective exchange rate index | 67.4 |
| 1 3/16% <i>p.a. disc. disc.</i> | Forward 3-months | 1 1/8% <i>p.a. disc.</i> |
| 10 11/16% | Euro-\$ 3-months | 10 3/8% |
| 3/8% disc. | I.B. Comparison | 3/8% disc. |
| 1.9087 | \$/DM | 1.9149 |
| 3.94 1/8 | £/DM | 3.95 7/8 |
| 9.13 3/8 | £/FF | 9.14 7/8 |
| 220.25 | \$/Yen | 220.12 |
| \$278.25 | Gold | \$279 1/2 |
| 1.7250 | \$/S.Fc. | 1.7350 |
| 3.56 3/16 | £/S.Fc. | 3.58 3/8 |