

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 13th June 1979

Although sterling went into orderly retreat after the appalling trade figures, the Budget (a 14% MLR in particular) generated strong demand which carried the effective rate up 1.0 to 68.6, the highest since the present index was instituted, after 67.2. The dollar eased back against most currencies. The Belgians raised discount rate another 1% as the EMS remained under pressure.

At first sterling was nervous ahead of the trade figures for the three months February-April due out on Friday afternoon, although some buying from the Continent took the rate to 2.0745 just before the figures were released. The deficit was far wider than even the worst prediction, and sterling retreated in orderly fashion to 2.0650 on Friday afternoon. It opened lower after the weekend, skirting 2.06 on light professional selling on Monday morning, but few were prepared to sell before the Budget and the rate hardened to around 2.07½ when the Chancellor began. The CGBR and wholesale prices for May had made no impact on Monday. Sterling rose sharply when he announced the 2% rise in MLR; the rest of the Budget was well received, the various relaxations of exchange control notwithstanding; and the pound advanced to 2.09½ in late London dealing and then further to 2.10 in New York before professional profit-taking brought a temporary retreat on Wednesday morning. During the afternoon, however, sterling came into good demand again, perhaps to buy gilt-edged, and the pound ended the period at 2.1077 after 2.1140, the highest since 1975. Although it closed at 3 3/16%, 2% higher than a week earlier, the cost of cover did not match the higher domestic interest rates, and sterling went to an intrinsic premium of 3/16% on the usual comparison.

The dollar eased back in other centres, despite a surprisingly low increase in producer prices in May (0.4%) and further sign that the economy is slowing. A couple of major banks reduced their prime rate to 11½%. Fed. intervention in the exchange market was negligible. A bizarre episode brought a sharp but temporary improvement in the yen on Friday, to 214, when a leading Japanese official suggested that a rate in the 190-200 range would be appropriate. The yen soon weakened, however, and closed little changed at 220.07 without intervention. The mark remained top of the expanded snake, but this week the Bundesbank sold only \$30 mn. and indeed sold three times as much in marks to support the weaker EMS currencies. On balance, the mark gained 0.3% to 1.9093. The Belgian franc and the Danish krone alternated in bottom place, the franc receiving a late lift from the news of a further 1% increase in bank rate, to 9%. The Belgians sold \$50 mn. and \$280 mn.-worth of marks; the Danes sold \$80 mn. and \$90 mn.-worth. Their currencies closed at 30.65 and 5.5087 respectively, both remaining well over 75 on the divergence indicator. Of the other EMS currencies, the lira improved to 852.25, the central bank buying \$260 mn., despite poor inflation figures; and the French franc gained 0.2% to 4.4170. The Irish pound closed at 1.9717, a discount of 6 7/8% on sterling. Various exchange control changes may have helped the Swiss franc to gain 0.3% to 1.7297. The SNB sold \$140 mn., but also bought dollars on the swap to ease domestic liquidity. The Canadian dollar was in rather better shape than last week. Sterling gained on the continental currencies, improving about 1½% against both the mark and the French franc, to 4.02½ and 9.31 respectively.

After earlier profit-taking, gold advanced as high as \$283 on Monday morning before fixing at a record \$282.40; thereafter the price fell back and \$276.60 was established at the afternoon session on Wednesday, a decline of \$3.40 on the week.

14th June 1979.

P.A.B.

RATES, ETC.10.15 a.m.10.15 a.m.

7th June

14th June

2.0673

£/\$

2.1043

67.4

Effective exchange rate index

68.5

1½% p.a. disc.

Forward 3-months

3½% p.a. disc.

10½%

Euro-\$ 3-months

10½%

½% disc.

I.B. Comparison

3/16% pre

1.9149

\$/DM

1.9095

3.95½

£/DM

4.01½

9.14½

£/FF

9.29½

220.12

\$/Yen

220.27

\$279½

Gold

\$279.40

1.7350

\$/S.Fc.

1.7298

3.58½

£/S.Fc.

3.64