FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 20th June 1979

Profit-taking, then apprehension ahead of the May trade figures, took sterling down to 68.0 in effective terms on Tuesday morning; but the index returned to 68.6 as demand later revived. Oil prices and monetary developments weakened the dollar and official support was resumed. The EMS remained under strain.

Early commercial and professional selling pushed sterling down to 2.0937, over 1¼ cents below the London close on 13th June. The pressure was not sustained, however, and the pound closed higher at 2.1037 on Friday, the dollar having given ground in most centres. Weekend press comment suggesting an enormous trade deficit for May gave an uneasy time on Monday, although sterling was bought as the day wore on; the figures, bad as they were, came as a pleasant surprise on Tuesday afternoon, and sterling improved sharply against a sickly dollar to 2.13 in late trading and then further to 2.1342 on Wednesday, the best for nearly four years, before retreating to 2.1315 at the close. The other economic news - money supply up 1.2% to mid-May, retail prices, wages and earnings - was over-shadowed. The cost of cover stayed around 3⅛%, but euro-dollar rates out-stripped interbank sterling to leave the intrinsic premium in favour of London slightly lower at 1/16%.

The dollar fell in all main centres, and heavy official support resumed. Higher oil prices are now seen as bad for the dollar (whereas until recently many argued that they increase the demand for it for transactions purposes), so the forthcoming OPEC meeting was unsettling; US money supply rose a record amount, although special factors may have been at play; more US banks reduced prime rate; and various economic indicators suggested to some that the economy is more buoyant than they had thought. The Fed. themselves bought $990mn. in the market, entirely against marks, their first support since February. At one time the mark was as strong as 1.8555, but it eased back on Wednesday afternoon to close at 1.8634, an improvement of 2.4% on the week. The Bundesbank bought $260mn. in the market, and also a few Danish crowns, while making clear their determination to keep money tight. The mark remained top 2¼% currency in the expanded snake; the Belgian franc (29.87) and the Danish crown (5.3730), taking turns in bottom place, were frequently under pressure. The BNB sold $40mn. and $200mn. worth of marks; the Danes sold $65mn. and $80mn. worth, raised their discount rate 1% to 9% and announced austerity measures. Both these currencies became less divergent, however, recording only 76 on the index as other currencies weakened against the mark. The French franc (2.1% better against the dollar, closing at 4.3237, but as weak as 2.32¾ at one time against the mark) and the guilder (2.0465) also felt the draught; the French sold $90mn. worth of marks and the Dutch $40mn. worth of marks and a similar amount in dollars. The lira, while remaining top of the arrangement, fell to only 2½% above the mark, closing at 840. The Irish sold £16mn. and also a handful of dollars to keep their currency in touch with sterling; their pound closed at 2.0270, a 5⅛% discount. The Swiss franc gained 3¼% to 1.6740, despite massive support for the dollar ($650mn.) from the SNB. For once the yen was calm, improving ½% to 218.82 without support; the latest balance of payments and inflation figures looked rather happier. The Canadians' intention to move their embassy in Israel to Jerusalem provoked a hostile Arab reaction which put their dollar under pressure; it weakened to 85.21 after 84.78. The Swedish crown received heavy ($230mn.) support. Sterling eased back against the major continental currencies this week, for example by 1¼% to 3.97¼ against the mark and by 1% to 9.21½ against the French franc.

Gold reflected the weaker dollar, gaining $4¾ to $281.35 over the week. The U.S. Treasury auctioned 750,000 ounces of low-grade gold on Tuesday at an average of $279.02 per fine ounce - the equivalent of about $279¾ in good delivery form. 2 million ounces were bid for.

21st June 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
14th June		21st June
2.1043	£/$	2.1310
68.5	Effective exchange rate index	68.6
3¼% p.a. disc	Forward 3-months	3% p.a. disc
10⅜%	Euro-$ 3-months	10⅝%
3/16% pre	I.B.Comparison	¼% pre
1.9095	$/DM	1.8638
4.01¾	£/DM	3.97⅛
9.29⅞	£/FF	9.23
220.27	$/Yen	218.92
$279.40	Gold	$280.65
1.7298	$/S.Fc.	1.6779
3.64	£/S.Fc.	3.57½