SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 27th June 1979

Sterling remained in fine fettle, rising 0.4 in effective terms to 69.0 after 69.1 at times, the highest level since the present index was introduced. The dollar was heavily sold until it rallied on Tuesday, and substantial official support was given. Anxieties about oil explain much of its weakness and sterling's strength. The snake was a little more relaxed after earlier measures in Belgium and Denmark.

Persistent buying lifted sterling from 2.1315 at the London close on 20th June to 2.1490 on Thursday, although the rate subsequently retreated to 2.1435 on Friday evening. Professional and commercial interest was seen, and easily absorbed any selling. The dollar weakened further after the weekend, and sterling touched 2.1670 on Tuesday morning - the highest for nearly four years - before a sharp recovery in the dollar carried the rate back to 2.1315. A later spell of dollar weakness left it at 2.1560 at the London close on Wednesday. On balance, sterling gained slightly against the main continental currencies, closing at 3.97½ against the mark and 9.21¾ against the French franc. The likelihood of a substantial further rise in oil prices and high interest rates lie behind sterling's strength; for the present, at least, these considerations outweigh anxieties about trade figures and inflation. An increase in the cost of forward cover to 3 9/16% tipped sterling to a 5/16% intrinsic discount on the usual 3 months' comparison.

The dollar came under heavy pressure around the weekend as the OPEC conference drew nearer, and official support was at a very high rate for a few days. As well as the prospect of a higher oil price, fears that oil producers will ask for payment in a basket of currencies encouraged selling; money supply figures (with only a small part of the previous week's sharp increase reversed) were also unsettling. Consumer prices in May rose 1.1%, rather more than expected. However, a timely prediction by Mr.Blumenthal that U.S. oil imports will fall later this year, together with the revelation that the Commerce Department expect a sharp drop in GNP this quarter, boosted the dollar on Tuesday, although it sagged again on Wednesday. The Fed. themselves bought $1,350mn., largely against marks. The Bundesbank intervened quite lightly, buying $170mn. net; the mark gained 1% to 1.8437. An increase in discount rate is talked of; the mark remained top of the 2¼% band in the expanded snake, with the Belgian franc (29.62) and the Danish krone (5.3217) taking turns at the bottom; pressure on them was somewhat eased after the various measures announced recently, and their central banks sold only $40mn. worth of marks and $35mn. and $20mn. worth of marks respectively. On Wednesday afternoon they recorded 84 and 76 on the divergence index; the mark scored only -33. The French franc improved 1⅛% to 4.2760 against the dollar, and crept back below 2.32 against the mark; the Banque de France bought $100mn., but sold $85mn. worth of marks to improve the cross-rate. The Dutch announced austerity measures, and Irish interest rates rose: the guilder closed at 2.0260 and the punt at 2.0387 (5¾% discount on sterling); the

Dutch sold \$40mn. and \$20mn. worth of marks and the Irish sold £50mn. net. The lira (832.95) remained overall head of the snake, but its lead over the mark narrowed to 1¼%. There is talk of easing exchange controls. For once, the central bank did not buy dollars. Outside the EMS, both the yen (1⅛% better at 216.30, after 212.95) and the Swiss franc (⅞% up on the dollar at 1.6587, after 1.6357), attracted considerable interest at times. Intervention by the Bank of Japan was negligible, but the SNB bought nearly \$1bn. net and a further \$1.2bn. on the swap to relieve the money market over the half-year. The Canadian dollar closed higher at 85.96; the central bank added \$320mn. to the reserves.

The dollar's weakness raised the gold price to a record \$284.50 at the fix on Monday morning. Subsequently the price fell back to show a rise of 45 cents to \$281.80 over the week.

28th June 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
21st June		28th June
2.1310	£/$	2.1753
68.6	Effective exchange rate index	69.4
3% p.a. disc	Forward 3-months	3½% p.a. disc.
10⅝%	Euro-$ 3-months	10 11/16%
¼% pre	I.B.Comparison	¼% disc.
1.8638	$/DM	1.8364
3.97⅛	£/DM	3.99½
9.23	£/FF	9.24½
218.92	$/Yen	215.70
$280.65	Gold	$281.80
1.6779	$/S.Fc.	1.6507
3.57½	£/S.Fc.	3.59