

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 11th July 1979

Bouts of profit-taking failed to take the bounce out of sterling, which rose another 0.4 in effective terms to 71.3 after 71.4, the highest since March 1976. With energy questions still pressing, the dollar was mixed, remaining very nervous. The weaker snake currencies continued to toil.

Strong and widespread demand on Thursday morning carried sterling to 2.2540, the highest level for four years, over 3 cents above the close on 4th July. Profit-takers then had their turn, and sterling fell away, a rumour on Friday afternoon that exchange control would be abolished over the weekend carrying the pound back to 2.2182 at the close of business that day. After a lively session in New York - where the rate swung between 2.19½ and 2.21½ - sterling opened the new week at 2.2232, but again met profit-taking which took the rate below 2.20 at times. By mid-morning on Tuesday, however, the sellers seemed satisfied, and sterling was predominantly demanded between then and the end of the period. The rate closed at 2.2365 after 2.2445. Wholesale prices may have contributed to the selling on Monday, but the CGBR and banking statistics seemed to have no effect - perhaps they were read as ruling out an early fall in interest rates. Over the period, sterling gained only slightly against the mark, to 4.08, after 4.10½, but by ½% against the French franc (9.51½). Against the ECU, it rose from 1.6169 to 1.6180, some 6½% above the notional central rate. With little change in the cost of forward cover (3½%) or interest rates, sterling remained at small intrinsic premium on the usual comparison.

The dollar put in a mixed performance in other centres, but again required substantial support (\$½bn. - now \$6½ bn. altogether in the last month). With U.S. money supply flat and producer prices rising only ½%, attention still focussed on one facet or another of the energy problem - further interruption to Iranian supplies, the form in which Iran will take payment, Saudi production, and the President's postponed statement on energy policy. For a time the dollar strengthened on balance, but what seemed to be presidential vacillation put it under strain. The prospect of higher interest rates in Germany and Japan did nothing to help. The Fed. bought \$140 mn. against marks. Despite Bundesbank purchases of \$330 mn. and sales of marks worth \$480 mn. by other central banks in the snake, the mark improved ½% to 1.8245 and stayed top of the narrow band at 2% above the Belgian franc. The BNB sold another \$40 mn. and \$160 mn.-worth of marks but failed to buy comfort for long; however, their franc closed better at 70 on the divergence index. The guilder (2.0135, after \$50 mn.-worth of support, mostly against marks, and a rise in bank rate) and a more lightly supported Danish krone (5.2512) also felt the draught, as did the French franc (4.25½). Indeed, the Banque de France sold \$270 mn.-worth of marks as the cross-rate topped 2.33. The lira (821.35) remained overall head of the snake, at 3½% above the Belgian franc. The central bank were unaccustomed sellers of dollars (\$60 mn.). The Irish pound closed at a discount of 8½% against sterling, the central bank having sold £13 mn. Outside the snake, the Swiss franc weakened a touch to 1.6521, the SNB buying \$170 mn. net, and the yen eased back to 217.22. The Bank of Canada added \$140 mn. to reserves, but the Swedes supported their currency both before and after their bank rate increase.

Gold rose to new heights. \$290.60 on Wednesday morning was the best level at a fix, but the metal traded as high as \$291½, gaining a net \$6.80 to \$290.30 over the week. Turnover was sometimes heavy.

12th July 1979.

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RATES, ETC.10.15 a.m.5th July2.252071.63 1/16% p.a. disc.10 11/16%1/8% pre.1.82374:10 3/49.55 1/8215.45\$286.201.64403.70 1/4

£/\$

Effective exchange rate index

Forward 3-months

Euro-\$ 3-months

I.B. Comparison

\$/DM

£/DM

£/FF

\$/Yen

Gold

\$/S.Fc.

£/S.Fc.

10.15 a.m.12th July2.226671.03 1/8% p.a. disc.10 11/16%1/8% pre.1.82614.06 5/89.47 3/8217.25\$291.201.65403.68 1/4