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SECRET

1979/30

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 18th July 1979

After a quiet start, sterling gained sharply after the weekend, to close 0.8 higher in effective terms at 72.1 after 72.3, the highest since early 1976. President Carter's policy statement did nothing for the dollar, and subsequent news of senior resignations sent it lower in most centres.

At first sterling drifted down from the London close of 2.2365 on 11th July. Some profits were taken, the dollar was generally a touch firmer, and sterling yielded a little on the news of higher interest rates on the continent and the latest increase in UK retail prices. The rate touched 2.2215 on Friday before closing at 2.2248. After President Carter's policy statement, sterling firmed against a weaker dollar, and then hardened further on the UK trade figures published on Monday afternoon. The following day, the pound came back into strong demand, apparently from the Middle East, and gained 3 cents; and when the news broke that the President's senior colleagues were resigning, sterling roared ahead, touching 2.2945 on Wednesday morning, the highest since June 1975. Rumours of exchange control relaxations took the rate back to 2.2770 during the afternoon, but the pound recovered after the announcement to close at 2.2805. Sterling gave ground to the main continental currencies before the weekend, but more than recaptured it later, closing 7/8% stronger against the mark (at 4.11 3/4 after 4.13 5/8) and 3/4% up on the French franc (9.59). It improved 5/8% against the ECU to 1.6277, 7 3/8% above the notional central rate. Although euro-dollar rates edged up, a fall in the cost of forward cover to 2 15/16% left the the intrinsic premium on the usual three months' comparison at 1/16%.

At first the dollar was quiet, though nervous, ahead of President Carter's long-awaited policy statement. The biggish increase in US money supply was generally discounted. First reactions to the President's wide-ranging statement were to mark the dollar down, on the grounds that there was nothing to improve its immediate prospects, and sizeable support was given, mainly by the Fed. The news late on Tuesday that all the President's senior colleagues had tendered their resignations put the dollar into brisk retreat. Altogether the Fed. bought $1.3 bn., mostly as usual against marks. For their part, the Bundesbank bought $290 mn., and also a handful of French francs. The mark gained 1% to 1.8053, mainly on the dollar's general weakness, the anticipated increases in discount and Lombard rates on 12th July having little immediate effect. It remained top of the 2 1/4% band in the snake, 1 5/8% above the Danish crown (5.1802) which took over bottom seat from a convalescent Belgian franc (28.82). The Belgians sold $40 mn.-worth of marks, but it was the French franc (4.20 1/2 against the dollar, and usually over 2.33 against the mark) which felt the chill - the Banque de France spent $170 mn.-worth of marks, and raised the rates at which they discount Treasury bills by 5/8%. The Dutch were the others to increase administered interest rates. The lira remained overall top of the snake at 811.65, 3 3/8% above the Danish crown, after purchases of $30 mn. for the reserves; and the Irish pound cruised along, closing at 2.09, the discount on sterling rising to 9 1/8%, after some creaming. Outside the snake, the Swiss bought a modest $50 mn. net to contain the improvement in their franc to 1 1/2% (at 1.6285); and the yen finally threw off its sloth to gain 1 3/4% to 213.42. The Swedish crown remained weak.

Although stories of a poor Soviet grain harvest (and the consequent likelihood of gold sales to pay for imports) had given gold an uncomfortable day on Friday, the price soon passed the $300 mark to fix on Wednesday morning at $303.85. The afternoon price of $302.15 showed a gain of $11.85 on the week. The US Treasury auctioned 750,000 ozs. of low-grade bars at an average of $296.44 per ounce, equivalent to about $297¼ in good delivery form.

19th July 1979.

P.A.B. PB.

RATES, ETC.

10.15 a.m.		10.15 a.m.
12th July		19th July
2.2266	£/$	2.2855
71.0	Effective exchange rate index	72.3
3 1/8% p.a. disc.	Forward 3-months	2 7/8% p.a. disc.
10 11/16%	Euro-$ 3-months	10 15/16%
1/8% pre.	I.B.Comparison	1/16% pre.
1.8261	$/DM	1.8060
4.06 5/8	£/DM	4.12 3/4
9.47 3/8	£/FF	9.61 3/8
217.25	$/Yen	214.82
$291.20	Gold	$300.00
1.6540	$/S.Fc.	1.6322
3.68 1/4	£/S.Fc.	3.73