FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 25th July 1979

Widespread buying caused sterling to rise a further 1.5 in effective terms to 73.6, the highest since autumn 1975. Heavy support helped a queasy dollar to improve in most centres. The snake remained relaxed.

Buying in New York lifted sterling over 1 1/4 cents from the London close of 2.2805 on 18th July, and further interest on Thursday carried the rate above 2.30. Orderly profit-taking and some commercial selling brought a retreat to 2.2745 by Friday evening; but buyers returned in force after the weekend to sweep the pound up to 2.3275 on Tuesday evening, the highest since early June 1975, before further light profit-taking and a general improvement in the dollar brought it back to 2.32 at the close on Wednesday. Substantial amounts were creamed into the reserves. The buying was widespread; some of the money may have been destined for the gilt-edged market. Interest rates, oil, and most aspects of government's economic policy combine to make sterling attractive. Money supply figures had no effect; the threat of disruption from the power workers caused only a hiccough; and the market shrugged aside business complaints that sterling is overvalued. The pound gained handsomely against the main continental currencies, for example by 2 1/4% against both the mark (4.21 1/4) and the French franc (9.80 3/4). The rate against the ECU improved from 1.6277 to 1.6583, some 9% above the notional central rate. Euro-dollars hardened in sympathy with U.S. rates, but the cost of forward cover shrank to 2 11/16% leaving sterling at a slightly enhanced intrinsic premium of 1/8% on the usual comparison.

Disquiet about the Administration's grip on events and the shock of senior dismissals - notably the replacement of Mr.Blumenthal by Mr.Miller at the Treasury, and the gap left at the Fed. until Mr.Volcker's appointment - made the dollar distinctly uneasy, although on balance it struggled up in most centres after heavy support. Some biting valedictory remarks by Mr.Blumenthal did not improve the tone. Economic news was mixed. Money supply grew fast again, but the Fed. responded with a 1/2% increase in discount rate; and preliminary figures suggested a sharp fall in economic activity in the second quarter. No fresh support for the dollar was drummed up, though many expected an announcement. The Fed. bought $1,040 mn. in the market, entirely against marks. The Bundesbank bought a mere $40 mn., press reports nothwithstanding. The mark eased 1/2% to 1.8154, but remained easily top of the 2 1/4% band in a relaxed snake, 1 5/8% above the Danish krone (5.2110) which alternated in bottom place with the Belgian franc (29.02). For once the Belgians did not support their franc; indeed the only significant intervention in snake currencies came from the French, who sold $30 mn.-worth of marks. Their franc closed at 4.22 3/4, little changed at 2.32 7/8 against the mark. Another unsuccessful attempt to form a government may have contributed to the lira's fall to 815.95, after $100 mn. of support, but it remained overall top of the snake, 3 1/2% above the krone. The Irish pound eased to 2.0887, a 10% discount on sterling. As with the Bundesbank, many observers wrongly believed that the SNB were active in the market: in fact they did nothing as the Swiss franc softened to 1.6406. Outside Europe, the Japanese and the Canadians increased discount rate, by 1% and 1/2% respectively, but their currencies drifted back nevertheless to 215.20 and 85.84. The Swedish crown remained weak.

Gold fell below $300 at first; it then advanced strongly to fix at a record $306 1/2 on Tuesday morning, having traded at $307 1/2. However, the metal fell back on a rumour that the U.S. Treasury will increase gold sales, fixing on Wednesday afternoon at $303.35, a gain of $1.20 on the week.

26th July 1979.

P.A.B.

RATES, ETC.

10.15 a.m.		10.15 a.m.
19th. July		26th. July
2.2855	£/$	2.3343
72.3	Effective exchange rate index	74.0
2 7/8% p.a. disc.	Forward 3-months	2 5/8% p.a. disc.
10 15/16%	Euro-$ 3-months	11 1/8%
1/16% pre.	I.B.Comparison	1/4% pre.
1.8060	$/DM	1.8124
4.12 3/4	£/DM	4.23
9.61 3/8	£/FF	9.85 7/8
214.82	$/Yen	214.60
$300.00	Gold	$306 1/2
1.6322	$/S.Fc.	1.6403
3.73	£/S.Fc.	3.82 7/8