

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 31st July 1979

Sterling started very strongly, the 74.0 in effective terms on Thursday being the highest for nearly four years; but there was an abrupt change after the weekend, when the index fell to 71.6 in a disorderly market before recovering to 72.4 for a net fall of 1.2 in the week. The dollar was in better shape than recently.

Sterling was in strong demand on Thursday, reaching 2.3360, a fresh 4-year high and over 1½ cents above the previous close, before softening as positions were squared off ahead of the weekend. For most of Monday there was no hint of the storm that was to come: sterling eased back against a firmer dollar, but gained on most other currencies. Late on, however, the pound came heavily on offer from America, losing 3 cents before closing in New York on Monday night at 2.29. It opened around that level on Tuesday; eased back over the morning in a light but nervous market; and then fell abruptly again in the early afternoon when Americans returned to the fray. At times there were no buyers in sight. The London close was taken at 2.2595 - a fall of nearly 6 cents in 24 hours. The news that BP's assets in Nigeria are to be taken over, combined with an earlier rumour that Nigeria is a heavy seller of sterling, put the pound under further pressure in New York, where the rate fell briefly to 2.23. By Wednesday morning, however, the market had regained its nerve, and sterling traded mostly between 2.24½ and 2.25½ in two-way business until renewed buying interest took it to 2.2735 at the close. There was no economic news to explain the earlier sharp correction, although a gloomy CBI Survey and some private forecasts of a lower exchange rate may have helped tip the balance. Otherwise, it seems that sterling, having risen furthest, was most vulnerable to an improvement in the dollar and to end-month squaring-off. Despite gains early in the period, the pound fell against the main continental currencies, for example by 1½% to 4.15½ against the mark and by 1½% to 9.66 against the French franc. The ECU improved from 1.6583 to 1.6397, leaving sterling at an 8% premium on its notional central rate. With the cost of cover rising to 3½%, sterling returned to a small ¼% discount on the usual comparison.

The dollar had its best week for some time. Mr. Volcker's appointment, and his various pronouncements since, have given the market quiet satisfaction, and both money and trade figures were better than their predecessors. Most major banks increased prime rate to 11½%. Only on Thursday did the Fed support the dollar; their net intervention in the week was a mere \$200 mn., mostly as usual against marks. (Altogether in July they bought \$2.9 bn., out of \$4.8 bn. of total support for the dollar.) The Bundesbank were sellers of dollars (\$60 mn.) as the mark fell ¼% to 1.8288. It remained head of the 2½% band in a tighter-stretched snake, 2% above the Danish krone (5.26½ and by some way the most divergent currency at 73 on the index). The French franc eased to 4.2490, improving to 2.32½ against the mark, without intervention. The Belgian franc (29.25) was well off the bottom of the parity grid, and the guilder (2.0079) remained comfortable. Despite chronic political uncertainty, the lira (819.20) stayed overall top, closing 4½% above the krone. The Bank of Italy bought \$70 mn. The Irish pound (2.0687) came under some pressure, possibly occasioned by sterling's fall. The central bank sold \$30 mn. and £8 mn. net; their pound's discount on sterling narrowed to 9%. Outside the snake, the Swiss franc weakened 1% to 1.6570 after \$110 mn. of support, some of it a sale of marks. The SNB bought dollars on the swap to ease their money market. The yen fell back to 216.05.

Like sterling, gold reached its zenith on Thursday, fixing at \$307, only to suffer a sharp setback after the weekend. On Wednesday afternoon the price fixed at \$290.10 to show a net fall of \$13½ over the period. Turnover was sometimes heavy. The IMF auctioned 444,000 ozs. at an average of \$289.59.

*J.*

2nd August 1979.  
PAB

*Bz*

RATES, ETC.10.15 a.m.10.15 a.m.

<u>26th July</u>		<u>2nd August</u>
<u>2.3343</u>	£/\$	<u>2.2710</u>
<u>74.0</u>	Effective exchange rate index	<u>72.3</u>
<u>2<math>\frac{3}{8}</math>% p.a. disc.</u>	Forward 3-months	<u>3 <math>\frac{1}{16}</math>% p.a. disc.</u>
<u>11<math>\frac{3}{8}</math>%</u>	Euro-\$ 3-months	<u>11<math>\frac{3}{8}</math>%</u>
<u><math>\frac{1}{8}</math>% pre.</u>	I.B. Comparison	<u>parity</u>
<u>1.8124</u>	\$/DM	<u>1.8245</u>
<u>4.23</u>	£/DM	<u>4.14<math>\frac{1}{8}</math></u>
<u>9.85<math>\frac{1}{8}</math></u>	£/FF	<u>9.63<math>\frac{1}{4}</math></u>
<u>214.60</u>	\$/Yen	<u>216.15</u>
<u>\$306<math>\frac{1}{2}</math></u>	Gold	<u>\$292</u>
<u>1.6403</u>	\$/S.Fc.	<u>1.6531</u>
<u>3.82<math>\frac{1}{8}</math></u>	£/S.Fc.	<u>3.75<math>\frac{1}{8}</math></u>