

FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 8th August 1979

After a quiet start to the week, the wholesale price figures set off a further bout of selling which pushed sterling's effective rate index down to 70.5 on Tuesday. It later recovered to 70.6, a fall of 1.8 in the week. Trading was sometimes thin and disorderly. Otherwise the exchanges were quiet, although the Danish krone remained under pressure in the snake.

Sterling was steady before the weekend, easing just $\frac{1}{2}$ cent to 2.2710 between the London close on 1st August and Friday night, having touched 2.2812 at one time on Friday. The big increase in reserves announced on Thursday afternoon had surprised the market and - although more than one lesson could be drawn from it - appeared to contribute to the firmer tone. The dollar itself was improving, and sterling regained some of the ground lost to other major currencies the previous Monday and Tuesday. However, the wholesale price statistics shattered the calm on Monday afternoon, and sterling fell 3 cents; and anticipation of poor banking statistics brought another sharp fall early on Tuesday afternoon. In fact the figures were much better than expected, but sterling remained on offer, falling to 2.2035 at one time on Wednesday, until the publication of new estimates of the benefits from North Sea oil brought a recovery to 2.2170. At times the rate had crumbled on very little business. Sterling declined across the board, for example by about $2\frac{1}{2}\%$ to 4.05 $\frac{1}{2}$ and 9.42 $\frac{1}{2}$ against the mark and the French franc. The ECU rate eased to 1.5969, a $5\frac{1}{8}\%$ premium on the notional central rate. However, the cost of forward cover was little changed at $3\frac{3}{16}\%$, leaving a $\frac{1}{8}\%$ discount on the usual 3-months' comparison.

The dollar was little changed elsewhere. The Fed did not intervene. Despite the possibility of an OPEC meeting next month, the tone is quite firm. The mark was steady at 1.8298, the Bundesbank selling \$130 mn. to cover capital exports; it remained easily the strongest $2\frac{1}{2}\%$ currency in a well-stretched snake, closing $2\frac{3}{16}\%$ above the Danish krone (5.27 $\frac{1}{2}$ and 80 on the divergence index). The Danes sold \$130 mn. No other currency in the arrangement was under pressure, the French franc for example holding around 4.2495 against the dollar (2.32 $\frac{1}{2}$ against the mark). The Bank of France added \$30 mn. and an equivalent amount of marks to their reserves. The Irish pound softened to 2.0540 after a net \$20 mn.-worth of support, half of it achieved by sales of sterling against which it closed at a narrower discount. The lira (819 $\frac{1}{2}$) remained overall head of the snake, at $4\frac{1}{4}\%$ above the krone; the Bank of Italy bought \$240 mn. Outside the EMS, the Swiss franc was little changed at 1.6565 after \$170 mn. of support. The SNB bought \$1.1 bn. on the swap to relieve their money market. The yen traded quietly to 216.52.

Gold was weak for a time, apparently on fears of forced Russian sales, fixing at low at \$282 $\frac{1}{2}$ on Tuesday morning. The price then rallied to \$289 on Wednesday afternoon, a fall of barely \$1 over the period. Turnover was heavy.

9th August 1979.
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RATES, ETC.

10.15 a.m.

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<u>2nd August</u>		<u>9th August</u>
<u>2.2710</u>	£/\$	<u>2.2234</u>
<u>72.3</u>	Effective exchange rate index	<u>70.7</u>
<u>3 1/16% p.a. disc.</u>	Forward 3-months	<u>3 1/16% p.a. disc.</u>
<u>11 1/8%</u>	Euro-\$ 3-months	<u>11 1/16%</u>
<u>parity</u>	I.B. Comparison	<u>1/16% disc.</u>
<u>1.8245</u>	\$/DM	<u>1.8254</u>
<u>4.14 1/8</u>	£/DM	<u>4.05 1/8</u>
<u>9.63 1/8</u>	£/FF	<u>9.43 1/8</u>
<u>216.15</u>	\$/Yen	<u>216.35</u>
<u>\$292</u>	Gold	<u>\$292.60</u>
<u>1.6531</u>	\$/S.Fc.	<u>1.6535</u>
<u>3.75 1/8</u>	£/S.Fc.	<u>3.67 1/8</u>