

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 15th August 1979

Apart from a nervous spell after the weekend, sterling was firm and at times in good demand, rising 0.6 in effective terms to 71.2 after 71.6. The dollar began badly, but later firmed as interest rates rose. The Danish crown was again uncomfortable in the snake.

Fresh Treasury forecasts of the effect of North Sea oil continued to benefit sterling in late trading on 8th August, and the rate closed in New York at 2.2260, nearly 1 cent above the official London close. The pound advanced further against a weak dollar on Thursday and Friday and was also bought for its own sake, reaching 2.2570 before closing for the weekend at 2.2495. After a bright opening on Monday, however, sterling felt the chill wind of professional selling; the forthcoming retail price figures were causing anxiety, and the rate touched 2.22 at one time on Tuesday. The clouds then parted and sterling was soon basking again in general favour, as buyers from Europe and the Middle East returned and earlier sellers hurried to close out their positions. The rate closed on Wednesday at 2.2320 after 2.2471. Average earnings had no effect. Sterling recovered more ground on the Continent, closing around 1% better against the mark (4.09½) and the French franc (9.51½). Against the ECU it improved to 1.6186, a 6½% premium on the notional central rate. Although euro-dollar rates edged up, the cost of forward cover shrank to 2½%, eliminating the intrinsic discount on the usual comparison.

Disappointing producer price and money figures on Thursday renewed pressure on the dollar, and the Fed gave \$250 mn. of support on Friday. Thereafter the prospect and then the actuality of higher interest rates (it became clear on Wednesday that the target interest rate on Federal funds had increased, and some banks raised their prime rates to 12%) restored the dollar's strength, and on balance it gained over the period. The mark closed ½% weaker at 1.8336, after net purchases of \$50 mn. It remained top of the 2½% band in the snake, 2% above the Danish krone (5.2812, and 73 on the divergence indicator) which received \$90 mn. of support. The French franc eased to 4.26½; the central bank sold some marks. The lira closed better at 818.60, staying overall head of the snake 4½% above the krone; the central bank bought \$150 mn. The Feast of the Assumption made for quiet trading in these currencies on Tuesday and Wednesday. The Irish pound's discount on sterling was little changed at 7½%; the dollar rate closed at 2.0577. The currency received about \$20 mn.-worth of support, mostly in the form of sales of sterling. Outside the snake, the Swiss franc eased to 1.6590 after \$40 mn. of support, and the yen traded quietly and steadily to 216.90 despite poorer trade returns and forecasts.

Gold continued its erratic course, rising \$12.85 to \$301.85 over the week after \$292 on Tuesday afternoon. Turnover was heavy.

16th August 1979.
PAB

B.

J.

RATES, ETC.

10.15 a.m.

10.15 a.m.

9th August	Effective exchange rate index	16th August
2.2234	£/\$	2.2400
70.7		71.4
3 1/16% p.a. disc.	Forward 3-months	2 3/8 p.a. disc.
11 1/16%	Euro-\$ 3-months	11 1/2%
1/16% disc.	I.B. Comparison	parity
1.8254	\$/DM	1.8310
4.05 1/2%	£/DM	4.10 1/2%
9.43 3/8%	£/FF	9.55 3/8%
216.35	\$/Yen	217.15
\$292.60	Gold	\$298.30
1.6535	\$/S.Fc.	1.6568
3.67 1/2%	£/S.Fc.	3.71 1/2%