

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 22nd August 1979

Sterling yielded a little ground before the weekend, probably in anticipation of Monday's trade figures, but thereafter was firm for the most part. The effective index fell 0.4 to 70.8 after 70.4 on Monday morning. Higher interest rates helped to keep the dollar steady, but the yen and the Swiss franc met late selling.

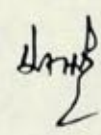
Sterling was firmer at first, closing at 2.2410 in New York on Wednesday night and shading up to 2.2422 in European trading on Thursday. Although the money figures were quite well received, sterling met some selling later that day and, this time in line with other currencies, fell further on news of the increase in Fed. discount rate. 2.2083 was seen on Friday morning, and 2.2095 later in the day, although the rpi and tpi figures had not been unsettling. The usual reaction brought some improvement, and the trade figures - much better than expected for the latest month at least - caused sterling to be marked up to 2.2240 shortly before the close on Monday. Thereafter, apart from a time on Tuesday afternoon, when a large seller appeared, sterling traded quietly, ending the period at 2.2183. Another crop of gloomy forecasts for the economy had little effect. The pound lost ground on the Continent, closing 3/4% lower at 4.06 1/4 against the mark and at 9.45 1/4 in Paris. The rate against the ECU fell to 1.6074 with sterling at a 6 1/4% premium on the notional central rate. Euro-dollar rates rose further, but the cost of cover shrank to 2 1/8% leaving sterling at a 3/16% premium on the usual comparison.

The dollar kept its firm tone for the most part, helped by a 1/2% increase in Fed discount rate (to 10 1/2%) and perhaps by signature of the bill to free some domestic oil prices. More banks increased prime rate. The Fed. did not intervene in the market. Despite an unaccustomed 0.7% rise in German wholesale prices, the mark hardened to 1.8313, remaining head of the 2 1/4% band in the snake 2 1/8% above the Danish krone (5.2782 and 74 on the divergence index). The Danes sold \$70 mn. Otherwise the EMS currencies were untroubled, though the Irish sold nearly £10 mn. as their pound eased to 2.0562 (7 1/4% discount on sterling). The French franc improved a touch to 4.2607. The lira closed at 817 1/2, 4 5/8% above the krone; the Banca d'Italia bought another \$220 mn. Outside the snake, the Swiss franc and the yen traded comfortably until both met selling pressure on Wednesday. The SNB spent \$100 mn. to hold their rate at 1.6586 (90.60 against the mark); the yen fell nearly 1 1/4% to 219.45. Japanese trade figures have worsened rather sharply. The Canadian dollar was mixed, the central bank adding \$140 mn. to reserves on balance. An increase in bank rate is widely expected.

Gold began quietly, only to be swept up to a record \$311 1/2 in hectic trading on Wednesday morning. It touched \$312 outside the fix. Over the week it rose \$9.15 to \$311. The U.S. Treasury auctioned 750,000 ozs. of low quality metal at an average price of \$301.08, equivalent to about \$301 3/4 per oz. in good delivery form.

23rd August 1979.

P.A.B.



RATES, ETC.

10.15 a.m.

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<u>16th August</u>		<u>23rd August</u>
<u>2.2400</u>	<u>£/\$</u>	<u>2.2335</u>
<u>71.4</u>	<u>Effective exchange rate index</u>	<u>71.3</u>
<u>2½% p.a. disc.</u>	<u>Forward 3-months</u>	<u>2½% p.a. disc.</u>
<u>11½%</u>	<u>Euro-\$ 3-months</u>	<u>11 13/16%</u>
<u>parity</u>	<u>I.B.Comparison</u>	<u>1/16% pre</u>
<u>1.8310</u>	<u>\$/DM</u>	<u>1.8300</u>
<u>4.10½</u>	<u>£/DM</u>	<u>4.08½</u>
<u>9.55½</u>	<u>£/FF</u>	<u>9.51½</u>
<u>217.15</u>	<u>\$/Yen</u>	<u>219.25</u>
<u>\$298.30</u>	<u>Gold</u>	<u>\$309.85</u>
<u>1.6568</u>	<u>\$/S.Fc.</u>	<u>1.6566</u>
<u>3.71½</u>	<u>£/S.Fc.</u>	<u>3.70</u>