

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 29th August 1979

Although exchange markets were generally quiet with the approach of the month-end, some steady demand for sterling was evinced throughout much of the period and the ERI rose from 70.8 to 72.1.

Having finished last week at 2.2183 the pound began on Thursday at 2.2323 and ran into some early demand before selling that afternoon took the rate back to 2.2247. Friday was quiet for the most part, but some late demand ahead of the long weekend in London took the pound as high as 2.2368. Sterling found modest demand from overseas on Monday but the buying interest mounted on Tuesday afternoon and 2.2525 was paid. The pattern was repeated on Wednesday with good, broad-based interest seen in the afternoon. The pound touched 2.2580 before closing at 2.2560. On the Continent, sterling gained $1\frac{1}{2}\%$ against the mark (4.13) and $1\frac{1}{2}\%$ against the French franc (9.62 $\frac{1}{2}$). The rate against the ECU rose to 1.6290, a $7\frac{1}{2}\%$ premium on the notional central rate. Eurodollar rates rose sharply following a further tightening in US monetary policy which provoked another round of prime rate increases. Forward margins adjusted for the most part and three months' cover cost $1\frac{9}{16}\%$ p.a. at the close leaving sterling with an intrinsic premium of $\frac{1}{2}\%$.

Despite higher interest rates, the dollar was little changed on the Continent but the yen continued under some pressure falling over 1% to 221.80 and inciting official support for the first time in two months. Political problems added to the uncertainty. The Japanese sold \$275 mn. overall. The deutschemark closed little changed at 1.8309, still at the head of the $2\frac{1}{2}\%$ band in the snake and $2\frac{1}{2}\%$ above the Danish krone (5.2772). The Bundesbank bought \$25 mn. Both the krone and the Belgian franc crossed the divergence threshold at times and the Belgians sold some deutschemarks to redress the balance. The lira finished the week at 817 $\frac{7}{8}$, $4\frac{1}{2}\%$ above the floor of the band. The Italians took in \$90 mn. After weakening at first, the French franc recovered to 4.2655 following the announcement of a fiscal package on Wednesday. Overall the French sold \$75 mn.-worth of deutschemarks and nearly \$40 mn. The punt closed little different at 2.05 $\frac{1}{2}$ (9% discount on sterling). Elsewhere, the Swiss franc eased slightly to 1.6625 but only after the Swiss had sold \$380 mn. in support.

Gold continued very firm, aided now by the strength of silver. Record fixing prices were set on Friday and again on Tuesday (\$316.75) and the price was fixed on Wednesday afternoon at \$315.20 for a rise of over \$4.

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JGH 30th August 1979.

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RATES, ETC.

10.15 a.m.

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<u>23rd August</u>		<u>30th August</u>
2.2335	£/\$	2.2512
71.3	Effective exchange rate index	72.0
2½ p.a. disc.	Forward 3-months	1½ p.a. disc.
11 13/16%	Euro-\$ 3-months	12 5/16%
1/16% pre	I.B. Comparison	1/16% pre
1.8300	\$/DM	1.8304
4.08½	£/DM	4.12
9.51½	£/FF	9.60½
219.25	\$/Yen	221.50
\$309.85	Gold	\$319.20
1.6566	\$/S.Fc.	1.6617
3.70	f. S.Fc.	3.74½