

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 5th September 1979

In an unexceptional week, interrupted by an American holiday, both sterling and the dollar have met selling at times. The Swiss franc and yen, too, have continued soft and the snake has experienced incipient pressures as the EMS review approaches. Sterling's ERI fell from 72.1 to 71.5.

The pound ended last week at 2.2560 and began on Thursday at 2.2530. Some long positions in sterling against the yen and European currencies were liquidated that morning and the pound declined nervously to 2.2440. Bear covering brought some respite and on a quiet Friday sterling recovered to 2.2550 with 2.2585 later paid in New York. Monday was quiet with American markets closed and sterling fluctuated around 2.25. On Tuesday, however, the minatory tone of the Trades Union Congress sparked a swift and savage selling raid and the pound fell in short order to 2.2343. The Banking figures were unhelpful, though largely discounted, but the August reserves announcement was well taken. Some modest demand was induced on Wednesday as the dollar fell back and sterling touched 2.2455 before finishing the week at 2.2425. The pound gave up over 1% in Paris (9.52%) and 1% in Frankfurt (4.08%); the rate against the ECU fell to 1.6140, a 6% premium on the notional central rate. Eurodollar rates hardened again on Wednesday following yet another tightening in monetary policy by the Federal Reserve the previous day. Forward margins narrowed in consequence but, with the cost of 3 months' cover at 1 11/16% p.a., the covered differential moved from 1/2% in London's favour to 1/16% against London.

The dollar lost ground on Thursday but with the Federal Reserve moving promptly to intervene (almost \$400 mn. in all purchased against deutschemarks) it then passed most of the week nervously steady. Central bank support sales, especially by the Swiss, were a disquieting factor and on Wednesday, despite the higher interest rates, the dollar moved yet lower. The Swiss sold \$480 mn. and additionally spent \$20 mn.-worth of Dutch guilders and \$50 mn. of deutschemarks. Their franc improved to 1.6533 but their operations were clearly directed at the mark and the cross-rate was kept very steady, closing at SF 0.9083. The deutschemark itself advanced to 1.8202, retaining hegemony in the snake. The Bundesbank bought \$75 mn. but sold over \$100 mn. in cover of capital exports. The Danish krone (5.2567) was at the foot of the band throughout and from Friday onwards the snake was often fully stretched. The Danes sold \$75 mn. and over \$100 mn.-worth of marks and the Germans bought a small amount of kroner. The Belgian franc (29.22) was also under attack and the Belgians shelled out \$20 mn. and \$75 mn. of marks. Both the Belgian franc and the Danish krone were at or beyond the divergence threshold at times, the latter for most of the period. The krone closed at 76 on the indicator and the Belgian franc at 77. The guilder (1.9989) proved relatively firm on Thursday and the Dutch took in exchange in a small way. The French, however, were at pains to keep the cross-rate with the mark around 2.33% and sold \$35 mn. and \$50 mn. of marks to achieve this. Their franc closed at 2.33% to the mark and 4.2460 to the dollar. The lira finished at 815%, 4% above the floor. The Italians took in almost \$100 mn. The punt firmed to 2.06% (7% discount on sterling). The Irish sold \$50 mn. and sterling worth around \$20 mn. Elsewhere the yen steadied somewhat on Thursday after substantial official support in Tokyo but softened again after the weekend. Overall the Bank of Japan sold \$475 mn. and the yen closed only slightly firmer at 221.38.

With only a pause for consolidation on Friday, gold advanced inexorably to \$330 on Wednesday in advance of the IMF Auction. This level provoked a good deal of profit-taking and the week's final fixing set a level of \$329, a rise of nearly \$14 on the week. In the morning the metal was fixed at a new record level of \$329.25. Movements in the silver price continued to be a leading factor. On Wednesday the IMF auctioned 444,000 ounces of gold at an average price of \$333.24.

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6th September 1979.
JGH

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.00 a.m.</u>
<u>30. 8.79</u>		<u>6. 9.79</u>
<u>2.2512</u>	£/\$	<u>2.2495</u>
<u>72.0</u>	Effective exchange rate index	<u>71.6</u>
<u>1½% p.a. disc.</u>	Forward 3-months	<u>1½% p.a. disc.</u>
<u>12 5/16%</u>	Euro-\$ 3-months	<u>12½%</u>
<u>1/16% pre.</u>	I.B.Comparison	<u>=</u>
<u>1.8304</u>	\$/DM	<u>1.8125</u>
<u>4.12</u>	£/DM	<u>4.07½</u>
<u>9.60½</u>	£/FF	<u>9.51½</u>
<u>221.50</u>	\$/Yen	<u>220.60</u>
<u>\$319.20</u>	Gold	<u>\$341.50</u>
<u>1.6617</u>	\$/S.Fc.	<u>1.6448</u>
<u>3.74½</u>	£/S.Fc.	<u>3.70</u>