

FE440.07

SECRET

THE GOVERNORS' PRIVATE SECRETARY

*See 10/29*

DEVELOPMENTS IN THE FOREIGN EXCHANGE AND GOLD  
MARKETS DURING THE DEPUTY GOVERNOR'S ABSENCE

I attach a brief note as requested.

*D.A.H.B.*

7th September 1979.

D.A.H.B.

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

3rd - 7th September

Having closed the month of August at 2.2585 (ERI 71.9), sterling opened the new month at 2.2530 and in very quiet trading moved up slightly in the absence of New York in the afternoon for the Labor Day holiday. Heavy selling by Swiss banks in the Far East early on the 4th and later in early trading in London brought sterling sharply down to 2.2343 mainly on fears of the TUC Conference and the July banking figures. In the event the latter had little effect; and the entry of New York and publication of the August reserve figures gave support to sterling which closed at 2.2377 (ERI 71.4). The weakening of the U.S. dollar on the 5th was the only feature in a dull market and sterling rose with the other currencies to close at 2.2425 (ERI 71.5); but on the 6th, sterling, after rising to 2.2520, weakened to close at 2.2465 as German banks sold sterling for marks apparently on commercial account. Sterling opened little changed this morning in very quiet markets. The rise in U.S. interest rates on the 4th reduced the cost of three - month forward cover from 2% to 1 11/16%, but the covered comparison remains close to parity. Table 1 summarises EEA transactions.

Although on the 5th sterling firmed marginally in terms of the other main currencies, it weakened overall with the dollar. The Swiss sold dollars heavily to maintain their franc against the deutschemark. The Japanese Yen was steadier; and the Danish krone remained at the bottom of the snake followed by the Belgian franc, both supported by considerable sales of marks. The French continued to intervene to support the franc/mark rate. Table 2 shows the main exchange rates and intervention.

Gold was traded very actively with very heavy turnover at the morning fixing on the 5th. Its price rose to a record 340.85 at the following morning's fix (after business at \$343) but a reaction set in and it was fixed at 329.15 this afternoon.

7th September 1979.

*Mr*

TABLE 1

\$ mns.

EEA TRANSACTIONS

Dealing for the first week of September has not finished.  
The figures for September so far at yesterday's close were:

<u>Spot reserves</u>	<u>Overbought forward position</u>	<u>Total*</u>
+ 11	+ 1,319	- 401

\* of which

Market	- 3
Iran	+ 15

TABLE 2

	<u>close 31.8.79</u>	<u>11.00 a.m. 7.9.79</u>
<u>\$ against</u>		
£	2.2545	2.2465
DM	1.8252	1.8121
Swiss franc	1.6566	1.6377
French franc	4.2557	4.2285
Yen	220.60	221.22

<u>£ against</u>		
DM	4.11½	4.07 1/16
French franc	9 .59 7/16	9.49 15/16
Yen	497 5/16	497

<u>£ ERI</u>	71.9	71.5
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Intervention

Italy	+ 32	
Switzerland	- 401	(and - \$49 worth of DM)
Japan	- 206	
U.K	- 3	
Sweden	- 96	
France	-	(and - \$96 worth of DM)