FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 19th September 1979

Gloomy industrial news, fears that sterling might enter the European Monetary System at a depreciated rate, and expectations of a mark revaluation, brought heavy selling of sterling until calm was restored on Monday afternoon. In effective terms, sterling fell 3.3% to 68.2, after 67.8. A further rise in US interest rates did not dispel the dollar's unease. The expanded snake was under intense pressure before the weekend.

Sterling rose from the London close of 2.2195 on 12th September to touch 2.2215 on Thursday morning, but the gain carried no conviction and sellers crowded in when the miners put in their 65% wage claim. The pressure continued on Friday, despite a fair retail price figure, and sterling traded as low at 2.16¼ late on. The bears - professional and commercial - returned in force after the weekend, driving the pound down to 2.1285 on Monday before buyers took fresh heart and earlier sellers reaped their profit. The rate had already turned when the newswires reported that no early entry into the European Monetary System - one of the causes of anxiety - was contemplated, and sterling touched 2.16½ shortly after the trade figures on Tuesday afternoon before reacting to 2.1440 by the close on Wednesday. Some of the selling before the weekend had been against marks, in the expectation - not fulfilled - that the mark would be revalued. Otherwise, industrial news - British Leyland, the engineering strike as well as the miners - was depressing, and sterling interest rates lost more of their edge. The pound fell on the Continent, closing about 3½% lower against the mark (3.87½-4.00 having been breached late on Thursday) and in Paris (9.05⅞). The ECU rate fell to 1.54½, a premium of only 2⅜% on the notional central rate. Eurodollar rates rose in sympathy with New York, and the discount on forward sterling edged up to 1 11/16%, leaving a wider covered margin of ½% against London on the usual comparison.

The Fed gave $1,200 mn. of support to keep the dollar up on the Continent. The ½% increase in discount rate to a record 11% had little immediate effect. The Bundesbank sold $200 mn. to cover capital exports as the mark hardened to 1.8076. It remained leading 2¼% currency in the snake at 2% above the Belgian franc (28.98, and 70 on the divergence indicator). The equivalent of over $1 bn. of official sales of marks were needed to keep the snake intact. The Danes were especially hard-pressed until they increased discount rate by 2% on Friday; the crown improved sharply in consequence, then drifted back, but closed well off the bottom at 5.18¼. All told, they sold $10 mn. and $300 mn.-worth of marks; the Bundesbank for their part bought $200 mn.-worth of crowns. The Belgians sold $270 mn.-worth of marks. Although better placed in the snake, the French franc was sufficiently weak against the mark (2.33¾) to occasion $350 mn.-worth of help, mostly against marks. It closed at 4.2253 against the dollar. The lira (813.10) slipped to 3⅝% above the Belgian franc; and the Irish pound, although comfortable enough in the EMS, received $100 mn.-worth of support, $60 mn. of it in the form of sales of sterling. It closed at 2.0777, a much-diminished 3⅛% discount on sterling. Outside the expanded snake, the Swiss franc closed at 1.6246, gaining on the mark; the National Bank added $60 mn. to reserves. The yen however eased to 223.55 after $160 mn. of official support.

Gold was frantically active, although at times on Tuesday - when the price rose over $20 - the market seized up, and wide dealing margins continue to be quoted. Over the week, the price climbed nearly $32 to $369, the record at a London fix being the $376 on Wednesday morning. Prices over $390 were seen in the Far East. The US Treasury auctioned 750,000 ozs. of low-grade gold at an average of $377.78, equivalent to $378½ or so in good delivery form.

Jew

20th September 1979.
p.p. PAB

# RATES, ETC.

| 10.15 a.m. | | 10.15 a.m. |
|---|---|---|
| 13. 9.79 | | 20. 9.79 |
| 2.2190 | £/$ | 2.1350 |
| 70.6 | Effective exchange rate index | 67.4 |
| 1⅝% p.a. disc. | Forward 3-months | 1¼% p.a. disc. |
| 12¾% | Euro-$ 3-months | 12 15/16% |
| ¼% disc. | I.B.Comparison | 7/16% disc. |
| 1.8086 | $/DM | 1.7787 |
| 4.01⅜ | £/DM | 3.79¾ |
| 9.37⅝ | £/FF | 8.92⅛ |
| 222.50 | $/Yen | 221.25 |
| $335.10 | Gold | $375.00 |
| 1.6313 | $/S.Fc. | 1.5907 |
| 3.62 | £/S.Fc. | 3.39⅝ |