

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 26th September 1979

Sustained before the weekend chiefly by the dollar's decline, sterling later came into good demand, rising  $\frac{1}{2}\%$  in effective terms to 68.7 after 67.8. A temporary withdrawal of official support let the dollar down sharply on Thursday. A realignment of rates relieved the snake's agony.

Sterling fell over a cent at first from the close of 2.1440 on 19th September, but soon began to rise against a markedly weaker dollar, touching 2.1745 on Friday morning when it attracted some attention on its own merits. Later selling from the Continent coincided with a general improvement in the dollar, and sterling closed for the weekend at 2.1645. The pound marked time on Monday morning while the dust raised by the weekend realignment of snake currencies settled, weakening a little on modest selling from the Continent; but it advanced subsequently on good professional, investment and commercial buying, closing on Wednesday at a best level of 2.1795. Sterling failed to keep up with the advance of the main Continental currencies before the weekend, but later recovered most of the ground lost; on balance, it weakened only  $\frac{1}{8}\%$  against the mark (3.85 $\frac{1}{2}$ ) and by  $\frac{1}{4}\%$  to 9.03 $\frac{1}{2}$  in Paris. It fell slightly to 1.54 $\frac{1}{2}$  against the ECU, this representing a premium of only  $\frac{1}{4}\%$  on the revised notional central rate. The intrinsic discount on the usual 3-months' comparison fell to 1/16%, the cost of forward cover closing at 1 $\frac{1}{2}\%$ .

The dollar fell precipitously on Thursday when it became clear that the Fed had withdrawn support at around 1.80 against the mark. It went 4 pfennigs or so lower. Once the initial panic was over, official resolve to defend the lower rate was not seriously tested for a time. The Fed bought \$460 mn. before the weekend, but did not bat again until Wednesday, when they bought \$480 mn. The Swiss bought the most dollars (\$1,170 mn., chiefly on Thursday). The franc strengthened by over 4 rappen that day, closing the period 2 $\frac{1}{2}\%$  better at 1.5832, but the SNB's main concern was seemingly to prevent their mark cross-rate improving beyond 0.89. The Bundesbank trod lightly in comparison, buying only \$70 mn. net. Over the week, the mark strengthened by 2 $\frac{1}{2}\%$  to 1.7679. Other participants in the EMS were acutely embarrassed by its strength. Before the weekend, central banks bought \$630 mn.-worth of Belgian and French francs and Danish crowns against marks, the Dane closing bottom of the snake on Friday. By the time trading reopened on Monday, the mark had been revalued 2% against the other currencies, and the crown devalued by 3%; these two swapped positions in the snake, without much change in their cross-rate in the market. The mark subsequently began to advance again, leaving the Belgian franc (28.48) at the bottom 1 $\frac{1}{2}\%$  below the crown (5.1642). No currency approached its divergence threshold. The lira closed overall top, at 809.30, 2 5/16% above the Belgian franc, but its relative position weakened and it received \$270 mn. of support. The French franc closed at 4.14 $\frac{1}{2}$  after \$320 mn.-worth of marks (and \$20 mn.) had been spent holding the cross-rate below 2.35 $\frac{1}{2}$ . Even the Irish pound (2.1097, its discount on sterling back to 3 $\frac{1}{2}\%$ ) was supported by official sales of \$110 mn. and \$120 mn.-worth of sterling, although it was never troubled in the snake. Elsewhere the yen remained rather weak, closing only  $\frac{1}{8}\%$  better against the dollar at 222.81. The Swedes raised bank rate by 1% to 8%.

At times the gold price looked vulnerable but on balance it closed  $\frac{1}{2}\%$  higher at \$373 $\frac{1}{2}$ . The \$380.40 on Monday morning is a record for the fix. Trading remained active if nervous.

27th September 1979.  
PAB

B.

J.



RATES, ETC.10.15 a.m.10.15 a.m.20th September27th September2.1350

£/\$

2.213767.4

Effective exchange rate index

69.41 $\frac{3}{4}$ % p.a. disc.

Forward 3-months

1  $\frac{5}{16}$ % p.a. disc.12  $\frac{15}{16}$ %

Euro-\$ 3-months

12  $\frac{11}{16}$ %7/16% disc.

I.B. Comparison

par1.7787

\$/DM

1.74763.79 $\frac{3}{4}$ 

£/DM

3.86 $\frac{7}{8}$ 8.92 $\frac{1}{2}$ 

£/FF

9.08 $\frac{1}{2}$ 221.25

\$/Yen

222.42\$375.00

Gold

\$385 $\frac{1}{2}$ 1.5907

\$/S.Fc.

1.55723.39 $\frac{3}{8}$ 

£/S.Fc.

3.44 $\frac{1}{2}$