

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 3rd October 1979

The pound was less volatile than many currencies in a difficult week, gaining 0.1 to 68.8 in effective terms after 69.5 on Thursday morning and 68.6 on Monday. The dollar was weak until expectations of higher U.S. interest rates and perhaps a new support package picked it up from the floor. Central banks gave heavy support on the way down.

Sterling gathered strength at first, rising 3½ cents from the London close on Wednesday afternoon to 2.2170 before profit-taking set in. The pound was rather inactive on Friday, closing for the weekend at 2.2020, and decidedly soft on Monday morning, when professional selling from the Continent took the rate down to 2.1785 against a queasy dollar. Sterling moved up again as the dollar took another battering; held a steadier course than most European currencies on Tuesday, when the dollar swung about wildly; but went easier on Wednesday morning, touching 2.1755, until renewed buying carried it to 2.1985 before a retreat to 2.1870 at the close. A report that Libya will curtail oil supplies appeared to encourage demand. The September reserves figures attracted no attention. Sterling softened on the Continent, easing back ¼% to 3.83½ against the mark, and to 9.02½ in Paris. The ECU rate fell to 1.5411, a ¼% premium on the notional central rate. A fall in the cost of forward cover turned the small intrinsic discount on sterling into a ¼% premium despite a rise in euro-dollar rates.

The dollar had another testing week, with the Hamburg and Belgrade meetings giving rise to various rumours. It received \$1.5 bn. of official support altogether. The U.S. trade figures - an increased deficit of \$2.36 bn. - were badly received. On Tuesday morning the dollar approached its lows of last October in some centres. It turned on some hints from Mr. Solomon of further support, and expectations were raised when Mr. Volcker left for home on Tuesday afternoon. Although nothing was announced, the prospect of yet higher U.S. interest rates and perhaps more direct support for the dollar kept the bears in their dens, and the dollar closed some way off the bottom. The Fed. themselves bought \$490 mn. in the market, mostly against marks. The Bundesbank were also active, buying \$650 mn., half of it on Monday. The mark gained ¼% to 1.75½ after 1.7258. The Swiss also gave tangible support to the dollar, buying \$430 mn.; their franc strengthened ½% to 1.57½. The French bought \$190 mn. as their currency improved to 4.12 ½, although, at 2.35½, it went softer against the mark. The dollar received similar support from Canada, but the Japanese, their own currency weak, sold \$440 mn.; the yen, alone among the major currencies, fell to 224.27 against the dollar. The dollar's troubles switched attention from the snake, which was comparatively relaxed with the lira (807.40) in top place and the Belgian franc (28.35) closing 2½% below it. The Danes (5.1335) bought a handful of dollars, Belgian francs, and marks; the Belgians gave their currency a modicum of support before raising bank rate to 10%. No currency approached its divergence threshold, and intervention in participating currencies was negligible. The Irish pound closed at 2.1285, a narrower 2½% discount on sterling, at the cost of some \$60 mn.-worth of support, mostly carried out by sales of sterling.

The gold market remained in the grip of a fever. On Tuesday, the price in London ranged over \$40, from \$405 to \$445. Fixings were lengthy and tortured. The highest fixing level was \$437 on Tuesday morning; on Wednesday the price fell sharply to \$402, but still showed a rise of nearly \$30 on the week.

4th October 1979.

P.A.B.

RATES, ETC.10.15 a.m.10.15 a.m.27th. September4th. October2.2137

£/\$

2.191769.4

Effective exchange rate index

68.915/16% p.a. disc.

Forward 3-months

3/4% p.a. disc.12¹¹/16%

Euro-\$ 3-months

13³/16%par

I.B. Comparison

1/2% p.a. pre.1.7476

\$/DM

1.75523.86⁷/8

£/DM

3.84⁵/89.08¹/8

£/FF

9.04³/8222.42

\$/Yen

223.20\$ 385¹/4

Gold

\$ 396¹/21.5572

\$/S.Fc.

1.57603.44³/4

£/S.Fc.

3.45³/8