

## FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 10th October 1979

Various policy measures announced by the Fed over the weekend were the feature of the period. The dollar strengthened in their wake, but subsequently lost some of its gains. Sterling closed unchanged at 68.8 in effective terms, having ranged from 69.0 before the weekend to 68.2 after it.

Rumours that OPEC countries plan to take more of their earnings in sterling brought some demand for the pound on Thursday, and the rate advanced almost a cent from the London close on 3rd October to 2.1965. Some profit-taking ensued, leaving sterling to drift back to 2.1815 by the close on Friday. The monetary measures announced by the Fed over the weekend caused sterling, like other currencies, to be marked down; trading opened at 2.1590 on Monday morning, and sterling eased further against the stronger dollar to 2.1345 on Tuesday. The pound was tending to improve against the continental currencies, however, and it came into good demand when Kuwait and Mexico announced higher oil prices, closing the period at 2.1658 after 2.1765. The wholesale price and banking statistics had little effect. Sterling gained  $\frac{1}{4}\%$  on the mark, to 3.86 $\frac{1}{2}$ ; in Paris it improved to 9.06 $\frac{1}{2}$ . Against the ECU sterling closed stronger at 1.5511, a premium of  $\frac{1}{4}\%$  on the notional central rate. Euro-dollars rose sharply after the Fed's announcement - 3 months' deposits yielded almost 2% more, at 14 $\frac{1}{2}\%$ , by Wednesday - but the discount on forward sterling turned to a  $\frac{1}{2}\%$  premium, and sterling closed at only  $\frac{1}{8}\%$  discount on the usual comparison.

Anticipation of policy measures sustained the dollar before the weekend, when it tended higher in most centres despite poor producer price figures. After the Fed's announcement of a 1% increase in discount rate, increased reserve requirements, and an intention to focus on monetary base rather than the Federal funds rate, the dollar opened higher on Monday morning and for a time tended to improve further, helped by sharply higher euro-dollar rates and perhaps by some sizeable conversions of Swiss franc borrowings. Major banks quickly increased prime rate to 13 $\frac{1}{2}\%$ . By Tuesday afternoon, however, some of the shine had dulled, and the dollar looked distinctly softer on Wednesday. On balance, central banks sold \$90 mn. in the period. The Fed themselves were absent from the market. The mark eased  $\frac{1}{4}$  pfennig to 1.7580 before the weekend; opened at 1.7695 on Monday, and touched 1.8160 the following day; but later strengthened to 1.7850. The Bundesbank bought \$30 mn. The Swiss, whose franc weakened 2 $\frac{3}{4}\%$  to 1.6125, did not intervene. The Danish crown (5.2122) remained top of the snake, at times the full 2 $\frac{1}{2}\%$  above the Belgian franc (28.83) in bottom place; but, as is frequently the case when minor currencies are the outriders, modest intervention sufficed to hold the margin. The Danes bought \$50 mn.-worth of Belgian francs (and also \$40 mn. and \$60 mn.-worth of marks); the Belgians sold \$27 mn.-worth of Danish crowns. No currency approached its divergence threshold. The lira's recent weakness brought a 1 $\frac{1}{2}\%$  increase in bank rate, to 12%; the currency closed at 825.30,  $\frac{1}{8}\%$  below the crown. The French franc (4.1862, and better at 2.34 $\frac{1}{2}$  against the mark) was rather firm, and the central bank bought \$170 mn. and some marks. At 2.0942, the Irish pound closed at a higher 3 $\frac{1}{4}\%$  discount on sterling. Both the Canadian dollar (bank rate up  $\frac{1}{4}\%$  to 13%; \$280 mn. of support) and the yen (down to 225.70 after \$90 mn. of support) struggled at times.

The gold price fluctuated widely again, fixing between \$367.50 on Friday and \$413 on Wednesday afternoon. Undaunted by the US measures, it rose \$11 over the week. Buying interest was reported from the Middle East. The IMF auctioned 444,000 ounces at an average of \$412.78.

11th October 1979.  
PAB

R.

Lang.



RATES, ETC.

10.15 a.m.

4th October

2.1917

68.9

$\frac{1}{8}$ % p.a. disc.

13  $\frac{3}{16}$ %

$\frac{1}{8}$ % p.a. pre.

1.7552

3.84 $\frac{1}{8}$

9.04 $\frac{1}{8}$

223.20

\$396 $\frac{1}{2}$

1.5760

3.45 $\frac{1}{8}$

10.15 a.m.

11th October

2.1658

68.8

$\frac{1}{8}$ % p.a. pre.

14 $\frac{7}{8}$ %

$\frac{1}{8}$ % p.a. disc.

1.7837

3.86 $\frac{1}{2}$

9.07 $\frac{1}{2}$

225.92

\$401.00

1.6125

3.49 $\frac{1}{2}$

Effective exchange rate index

Forward 3-months

Euro-\$ 3-months

I.B.Comparison

\$/DM

£/DM

£/FF

\$/Yen

Gold

\$/S.Fc.

£/S.Fc.