

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 24th October 1979

A quiet period for sterling ended on Tuesday, when the virtual abolition of exchange control was announced. Heavy selling of pounds took the effective index down to 67.5, but the market remained in good order and subsequent buying carried it back to 67.7 for a net fall of 1.1 in the week. Yet higher interest rates helped keep the dollar firm, but further massive support was needed to sustain the yen.

Sterling was quietly firm before the weekend, touching 2.15½ - ¼ cent higher than the London close on 17th October - before closing on Friday at 2.1545. Money supply and price figures were well received. The pound remained around these levels on Monday, but drifted back to 2.1389 by noon on Tuesday. Shortly afterwards the market got wind of the Chancellor's statement on exchange control, and sterling was down to 2.1286 by the time he spoke. Persistent and heavy selling ensued. In late trading sterling fell to 2.1075, not helped by further rises in US banks' prime rates; and 2.0955 was seen on Wednesday morning, before good demand from the Continent and then from New York lifted the rate to 2.1165 before 2.1128 at the close. Business was active and trading was never disorderly. The pound fell around 1½% against the mark and the French franc, to 3.80½ and 8.91½ respectively. Against the ECU it closed at 1.5298, a ⅜% discount on the notional central rate. Eurodollar rates rose further, to 15 9/16% at 3 months; the premium on forward sterling increased to 1%, leaving the intrinsic discount little changed at ½%.

Yet higher interest rates helped to keep the dollar quite firm in most centres; and late on the announcement that more Carter bonds will be issued gave it a brief boost. The Fed did not intervene. The mark eased to 1.8016; a rumoured increase in discount rate did not materialise. The Swiss franc was rather weak at times, closing ⅜% lower at 1.65½ after 1.6760. Against the mark, it eased to 0.91¼. The other main Continental currencies traded without feature. The snake narrowed to 2%, with the Danish crown (5.2522) and now the guilder (1.9986) the outriders. The French franc closed at 4.2207 and the lira at 829.75. The Bank of France bought \$70 mn. The Irish pound softened to 2.0680, a smaller 2⅜% discount on sterling, after sales of \$10 mn. and £20 mn. in support. No currency approached its threshold of divergence in the EMS. The Swedish crown remained under some pressure, as did the Canadian dollar, which was supported to the tune of \$130 mn. The Bank of Japan's resolve to hold up the yen was once more tested. At first their currency improved on talk of a package; but then it came under heavy pressure again. Altogether they spent \$0.5 bn., making \$2.5 bn. so far this month. The rate closed slightly better at 234.17 after 235½. Oil prices and supplies and Japan's own trade and price performance are the source of the trouble.

Gold was a generally calmer market and, by recent standards, comparatively steady. The price rose \$9 to \$395 after \$380½ on Thursday.

*gem*  
*for* 25th October 1979.  
PAB

*DATE*

RATES, ETC.10.15 a.m.10.15 a.m.18th October 197925th October 19792.1465

£/\$

2.114268.6

Effective exchange rate index

67.7½% p.a. pre.

Forward 3-months

½% p.a. pre.14 9/16%

Euro-\$ 3-months

15 9/16%7/16% disc.

I.B. Comparison

½% disc.1.7960

\$/DM

1.79933.85½

£/DM

3.80¾9.04¾

£/FF

8.91¾232.40

\$/Yen

233.57\$383¼

Gold

\$393½1.6418

\$/S.Fc.

1.64803.52¾

£/S.Fc.

3.48¾