

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 31st October 1979

Heavy selling of sterling on Tuesday drove the effective index down to 66.6, but it later recovered to 66.9, a net fall over the week of 1½%. Some at least of the selling stemmed from exchange control relaxations. High interest rates helped the dollar to improve in most centres. German and Dutch interest rates were raised. The yen remained uncomfortable.

Sterling was fairly steady before the weekend, at least until the rise in Citibank's prime rate to a record 15½% caused the rate to fall to 2.1010 on Friday. It ended the day at 2.1034, just under a cent lower than on Wednesday. The new week started quietly enough, but the pound came on offer on Monday afternoon and then was sold heavily on Tuesday, falling to 2.0582 at one time early in the afternoon. Selling came from all sides, with Swiss banks, possibly acting for Middle Eastern customers, prominent. Some domestic investment trusts moved into dollars while the going was good; and early Americans added to the pressure. Pay and prices, North Sea oil problems, US interest rates as well as delayed reaction to the end of exchange control, all contributed. By mid-afternoon, however, the storm was over; sterling recovered fitfully to 2.0685, and touched 2.0833 on Wednesday before closing the period at 2.0808, a net fall of 3½ cents. Against the mark it fell 1½%, to 3.75½; and it declined by 1½% to 8.78½ in Paris. The rate against the ECU fell to 1.5136, a 1½% discount on the notional central rate. The premium on forward sterling shrank to 11/16%, but a rise in inter-bank sterling to 14 13/16% cut the intrinsic discount to ¼%. Euro-dollar rates remained very high.

The further rise in prime rates, together with a large downward revision to recent money figures, helped keep the dollar firm. The only setback, and that brief, came from disappointing trade figures. The Fed did not intervene. Nor did the Bundesbank, whose mark eased to 1.8044 after a 1% increase in discount and Lombard rates (accompanied by larger rediscount quotas). It remained around the middle of a relaxed snake, which was bounded by the lira (833½) and the Belgian franc (29.09), which took the place of the guilder. The Dutch sold \$80 mn. and a handful of marks, and followed the Germans with a ½% increase in bank rate; but the Belgians bought \$60 mn.-worth of marks despite their lowly position. Worry about the balance of payments and external debt depressed the Danish crown to 5.3190, after \$150 mn. of support. The French franc, on the other hand, was buoyant at times, and closed virtually unchanged against the dollar at 4.2202. The central bank bought \$20 mn. and \$140 mn.-worth of marks. The Irish pound eased to 2.0557 (1½% discount on sterling) after \$70 mn. of support, most of it in the form of sales of sterling. Outside the EMS, the Swiss franc closed ¼% down, at 1.6602, after 1.6835, the SNB having expressed an intention to tighten money in order to keep it firm; the yen remained uncomfortable, closing 1½% weaker at 237.75 after 239.60 and \$280 mn. of support. The Canadians felt compelled to raise bank rate.

Gold fell sharply on the news that the US will auction up to 1½ mn. ounces on 1st November, and then drifted back to \$382, a fall of \$13 on the week.

1st November 1979.
PAB

RATES, ETC.10.15 a.m.10.15 a.m.

25th October 1979

1st November 1979

2.1142

£/\$

2.0865

67.7

Effective exchange rate index

67.0

 $\frac{3}{4}\%$ p.a. pre.

Forward 3-months

 $9/16\%$ p.a. pre.15 $9/16\%$

Euro-\$ 3-months

15 $11/16\%$ $\frac{1}{2}\%$ disc.

I.B. Comparison

 $\frac{1}{2}\%$ disc.

1.7993

\$/DM

1.8007

3.80 $\frac{1}{2}$

£/DM

3.75 $\frac{1}{2}$ 8.91 $\frac{1}{2}$

£/FF

8.79 $\frac{1}{2}$

233.57

\$/Yen

237.60

\$393 $\frac{1}{2}$

Gold

\$379 $\frac{1}{2}$

1.6480

\$/S.Fc.

1.6543

3.48 $\frac{1}{2}$

£/S.Fc.

3.45 $\frac{1}{2}$