

FOREIGN EXCHANGE AND GOLD MARKETS
Week ending 7th November 1979

After a nervous start, sterling came into good demand and rose by 0.3 in effective terms to 67.2 after 66.0 on Monday morning. Tension in Iran overshadowed the banking figures. The dollar eased back in most centres. The yen was again very weak.

Although the All Saints holiday made for quieter trading than usual on Thursday, sterling rose $\frac{1}{2}$ cent from the previous close of 2.0808 before selling from North America brought a sharp setback later in the day. Friday afternoon saw sterling down to 2.0562, but higher interest rates in Switzerland caused the dollar to weaken and sterling scraped up to close the day at 2.0655. Despite rather poor wholesale prices and a sharp rise in the banks' eligible liabilities, the tone was decidedly better after the weekend: indeed, a rise in North Sea oil prices, the unsettled state of Iran, and reported bidding for BP shares by a German oil company drove sterling as high as 2.10 in the Far East on Wednesday morning. It closed the period at 2.0943, a rise of $1\frac{1}{2}$ cents on the week. The pound gave a little ground against the mark, however, closing at 3.74 $\frac{1}{4}$, but it improved to 8.78 $\frac{5}{8}$ in Paris. Against the ECU it went to 1.5097, a discount of $1\frac{1}{2}$ % on the notional central rate. The banking figures, on top of widespread increases in interest rates abroad, encouraged expectations of a rise in MLR; the premium on 3-months' forward sterling was whittled down to $\frac{3}{8}$ %, but higher sterling interest rates brought the intrinsic discount on sterling back to $1/16$ %.

Further rises in interest rates abroad, together, perhaps, with a diplomatic deferral of a prime rate increase by Citibank, led the dollar to weaken in most centres before the weekend. (Chase Manhattan subsequently raised their prime rate to $15\frac{1}{2}$ %.) Later it eased back again because of developments in Iran. Nevertheless, it did not receive official support on balance. The EMS was very relaxed, the lira (827.95) closing at the top only $1\frac{7}{16}$ % above the Belgian franc (28.87). No currency approached its divergence threshold. A wage and price freeze helped the Danish crown (5.2837) to recover, and it was briefly top of the snake. The authorities gave it \$140 mn. of tangible support. The mark hardened to 1.7874, the Bundesbank buying \$30 mn. (and swapping large amounts out); and the French franc continued to be quite firm, improving to 4.1952. The central bank increased the rates at which they discount Treasury bills, and took in \$50 mn. on the exchanges. The Irish pound briefly showed a premium on sterling; it closed at 2.0730, a discount of 1%, after over \$130 mn. of support, almost entirely conducted by sales of sterling. Outside the EMS, the Swiss raised discount and Lombard rates by 1% (to 2% and 3% respectively) and reduced the levy on foreign deposits with Swiss banks; their franc improved $1\frac{1}{2}$ % to 1.6360 in consequence. They took in \$50 mn. The Norwegians continued to accumulate dollars; and the Canadian dollar had a comparatively easy week. The yen, however, sank deeper into trouble, cringing at every turn of events in Iran; it fell to 240.60 before closing at 240.25. Discount rate was finally raised 1% (to $6\frac{1}{2}$ %). The central bank spent \$1,060 mn., making \$3.8 bn. since the beginning of last month and nearly \$13 bn. in the last year.

Gold was firm ahead of Thursday's US auction, but weakened on the result - an average price of \$372.30 (for coin bars, equivalent to about \$373 per ounce in good delivery form), with the $1\frac{1}{2}$ million ounces on offer barely covered. However, events in Iran brought a rally, and the price closed at \$395, a gain of \$13 over the week. The IMF sold 444,000 ounces at an average price of \$393.55.

8th November 1979.

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RATES, ETC.

10.15 a.m.

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<u>1st November</u>		<u>8th November</u>
<u>2.0865</u>	£/\$	<u>2.0956</u>
<u>67.0</u>	Effective exchange rate index	<u>67.4</u>
<u>9/16% p.a. pre.</u>	Forward 3-months	<u>7/16% p.a. pre.</u>
<u>15 11/16%</u>	Euro-\$ 3-months	<u>15 7/8%</u>
<u>1/2% disc.</u>	I.B. Comparison	<u>1/8% disc.</u>
<u>1.8007</u>	\$/DM	<u>1.7928</u>
<u>3.75 1/4</u>	£/DM	<u>3.75 1/4</u>
<u>8.79 1/2</u>	£/FF	<u>8.81 1/8</u>
<u>237.60</u>	\$/Yen	<u>242.00</u>
<u>\$379.25</u>	Gold	<u>\$394.50</u>
<u>1.6543</u>	\$/S.Pc.	<u>1.6442</u>
<u>3.45 1/8</u>	£/S.Pc.	<u>3.44 1/2</u>