

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 14th November 1979

Higher interest rates (with growing expectations of a rise in MLR) helped keep sterling firm, but the dramatic turn of events in Iran made for a bumpy ride. The effective index rose by 0.5 to 67.7 after 68.4. A testing week left the dollar little changed on balance. The EMS was very relaxed, but pressure on the Yen continued.

Sterling was in no way put out by the failure of MLR to rise on Thursday and, apart from some selling in New York that night, it held its own against a firmer dollar before the weekend. Renewed expectations of an increase in MLR (with a high Treasury bill tender rate and a couple of increases in base rate pointing the way), developments in Iran, and signs that Saudi Arabia will raise the price of their oil, combined to bring good demand for sterling on Monday and Tuesday morning. The rate briefly topped 2.12, nearly 2½ cents higher than at the close on 7th November. The pound then went into the doldrums, probably affected by rejection of the Coal Board's wage offer, until the Iranian threat to withdraw deposits from American banks lit up the exchange market again. Sterling rose sharply on the news, from 2.08½ to 2.11, and later to 2.1130. The announcement early in the afternoon that the U.S. will block Iranian assets caused the dollar to recover, and sterling eased back. The trade figures passed almost unnoticed. Sterling closed the period at 2.1072, a rise of 1½ cents. At first the pound advanced against other major currencies; although it shed some of the gains later, it closed better at 3.75½ against the mark and at 8.81½ in Paris. Against the ECU it went to 1.5155, representing a discount of 1½% on the notional central rate. Euro-dollar rates retreated from their recent highs, and indeed were exceeded by interbank sterling rates which rose strongly. The premium on forward sterling turned into a discount of 11/16%, but the covered differential against London on the usual comparison gave way to a premium of 1/16%.

The dollar firmed in most centres around the weekend. Good money supply figures and more increases in prime rates probably helped, and the news from Iran was at least no worse. President Carter's prompt ban on oil imports from Iran was considered shrewd and benefitted the dollar. On Wednesday, however, the Iranian threat to withdraw deposits from American banks threw the exchange market into turmoil. The dollar fell, but recovered as quickly when the U.S. authorities blocked Iranian assets. The Fed. scarcely intervened in the market. The Bundesbank bought a mere \$30 mn.; the mark hardened ½ pfennig to 1.7820. It remained around the middle of the EMS, which was relaxed throughout, the lira (weaker at 828) and the Belgian franc (28.91) retaining top and bottom positions only 1 9/16% apart. The French franc closed ½% firmer at 4.1837, the central bank having bought \$80 mn. The Irish pound received \$70 mn. of support, mainly in the form of sales of sterling; it closed at 2.0760, and 1½% discount. All these currencies fluctuated against the dollar, but without special feature. There was more action in the Swiss franc, which slipped back to 1.6742 in the wake of a sizeable selling order before recovering to 1.6515. Mr. Leutwiler hinted at a more receptive attitude to foreign official holdings of francs. The prospect that Iranian oil supplies might be cut off drove the yen to 249½ in Tokyo on Tuesday, but it later improved to close 1½% down on the week at 243.20. It received another \$1,020 mn. of support.

Gold drifted off until events in Iran sparked a fresh rise in the price. It closed at \$390, \$5 down on the week.

15th November 1979.

P.A.B.

RATES, ETC.

10.15 a.m.

10.15 a.m.

8th November

15th November

2.0956

£/\$

2.1135

67.4

Effective exchange rate index

68.0

7/16% p.a. pre.

Forward 3-months

7/8% p.a. disc.

15 7/8%

Euro-\$ 3-months

15⁵/₁₆%

1/8% disc.

I.B. Comparison

par

1.7928

\$/DM

1.7830

3.75³/₄

£/DM

3.76⁷/₈

8.81⁷/₈

£/FF

8.84¹/₈

242.00

\$/Yen

245.90

\$394.50

Gold

\$388.50

1.6442

\$/S.Fc.

1.6525

3.44¹/₂

£/S.Fc.

3.49¹/₄