

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 21st November 1979

In a week dominated by disturbing and sometimes bizarre events in Iran and elsewhere and the American response to them, the 17% MLR and accompanying measures provided a piece of hard economic news which lifted sterling on to a higher plane. The effective rate index rose nearly 3% to 69.6 after 69.9. The dollar weakened in most centres, but the yen lost more ground. Markets were generally nervous and volatile.

Sterling drifted back at first from the London close of 2.1072 on 14th November, but soon came into good demand from Switzerland which took it to 2.1137 shortly before the MLR announcement. 3% was a bigger increase than the market had expected, and sterling was marked up to 2.1470 on Thursday afternoon. The Chancellor's statement came too late to have any further effect. The pound continued firm on Friday in the wake of the measures, and touched 2.17 in the afternoon as a report that Iran will take other currencies for oil hit the dollar. Another report, subsequently denied, that various countries including the UK plan to block Iranian assets increased the market's disarray. Sterling was stronger still on Monday morning, rising to 2.1907 following a Times report on the government's supposed exchange rate policy. After a relapse, it touched 2.19 again when the Iranians urged other OPEC members to drop the dollar as a transactions currency and the unit in which they price their oil; fell to 2.1570 on Tuesday when the others declined the advice; leapt to 2.1912 on Wednesday morning as trouble spread to Saudi Arabia; and once again retreated from this level to 2.1737 before closing at 2.1774, a gain of 7 cents on the week. Tension between Zambia and Rhodesia added to the confusion. Industrial trouble (at BL and the NCB) may have had some effect. Sterling improved to 3.82½ against the mark and to 8.97½ in Paris. Against the ECU it closed at 1.5410, a premium of ½% on the notional central rate. Both the discount on forward sterling and the inter-bank sterling rate rose smartly following the MLR increase. At the close of the period, 3-months' forward cover cost 1 9/16% but the covered differential in favour of sterling had improved to ½%.

The dollar weakened in most continental centres though its course was erratic. Economic news, including a surprisingly large increase in the US money supply and the widespread adoption of a 15½% prime rate, was mostly ignored. The Fed hardly intervened on the exchanges. The Bundesbank bought a mere \$30 mn. as the mark gained 1½% to 1.7557. The French bought another \$100 mn. Their franc ousted the lira (820.50) from top position in the snake, advancing to 4.1210 in the process. It closed 1½% above the guilder (1.9652) which in its turn had taken bottom place from the Belgian franc. The Dutch spent \$90 mn.-worth of marks and the Belgians, \$30 mn.-worth. The Irish pound rose to 2.1080, a 3½% discount on sterling, without support on balance. Outside the EMS, the Swiss franc (1.6395) received \$110 mn.-worth of help against marks as the cross-rate reached SF 0.93½. The Swedish crown was also under some pressure, but the Canadians added \$200 mn. to reserves. The yen's agony was somewhat lessened: alone of the major currencies it weakened against the dollar, to 248.17, but the Bank of Japan sold only \$300 mn. and did not bat at all on two days.

Gold was surprisingly quiet until Wednesday, when growing tension lifted the price to \$396.80 at the morning fix. It closed the period at \$396.15 for a net gain of \$6.15 on the week.

22nd November 1979.
PAB

R.

J.A.H.

RATES, ETC.

10.15 a.m.

10.15 a.m.

15th November 1979

22nd November 1979

2.1135

£/\$

2.1720

68.0

Effective exchange rate index

69.4

¾% p.a. disc.

Forward 3-months

1¼% p.a. disc.

15 5/16%

Euro-\$ 3-months

14¾%

par

I.B. Comparison

½% pre.

1.7830

\$/DM

1.7533

3.76¾

£/DM

3.80¾

8.84½

£/FF

8.94½

245.90

\$/Yen

247.70

\$388.50

Gold

\$395½

1.6525

\$/S.Fc.

1.6420

3.49½

£/S.Fc.

3.56¾