

G2FE N/C
via PAB

FK. 1440.04

SECRET

4.12.79

Mr P. A. Bunn

Thank you

GPS

GR 14/12

Copies to: Mr. McMahon o/r
Mr. Sangster o/r
Mr. Holland o/r
Mr. Byatt

FOREIGN EXCHANGE AND GOLD MARKETS

16th November - 3rd December

I attach a note covering the period of the Governor's absence.

4th December 1979.

PAB



Developments in and concerning Iran and other Islamic

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS

16th November - 3rd December

17% MLR and, on 20th November, a "Times" report that the Government want a strong exchange rate, combined to give sterling a firm start, and the rate touched 2.1912 (69.9) on 21st November. Trouble at British Leyland, apprehension over the miners' pay claim, and poor official forecasts for the economy brought some selling, however, and sterling traded down to 2.1477 (69.0) before sharp falls in dollar interest rates and later developments in the Middle East pushed the rate up again. Sterling closed at 2.2131 (69.9) after 2.2167 (70.0) against a very weak dollar. On balance, however, the pound fell against the main continental currencies. Three-months euro-dollars fell to 14½% after 13 5/16%; the cost of forward cover rose to 2½%, but the covered differential in sterling's favour closed steady at ¼%.

The dollar went lower in most centres after a very uneven passage; on balance, however, there were official sales of around \$1½ bn., more than accounted for by Japan. A fall in US interest rates (after an initial increase to 15½%, many prime rates went to 15¼%) contributed. Developments in and concerning Iran and other Islamic centres were a running sore. Latest US trade, money supply and price figures were not especially upsetting. The mark rose over 4% to 1.7085 (and went to a best-ever 1.7040 in late trading last night); the Bundesbank bought \$220 mn. The Germans published new targets for growth of a monetary base. A 5% depreciation of the Danish crown (which promptly went top of the EMS, closing at 5.2967) took some pressure off the snake, which stretched to 2 3/16% between the Danish crown and the Belgian franc (27.90). The Dutch raised discount and Lombard rates by 1%. Sweden and Norway also increased administered rates. Indications from Mr. Leutwiler that interest rates would have to rise, followed by suspension of the levy on foreign deposits with Swiss banks, brought a sharp improvement in the Swiss franc-dollar rate to 1.5650. The mark cross-rate (which had caused the SNB to intervene) improved to SF 0.91½ from nearly SF 0.94½ at one time. The yen remained very weak despite some relaxation of controls on inflows and the end of concessionary finance for imports. After topping 251½, the dollar rate closed at 248.80. The central bank sold \$2½ bn. in the period, bringing their cumulative total since November 1978 to \$16.3 bn.

Table 1 shows main interest rates; Table 2 summarises intervention; Table 3 presents EEA transactions.

Gold was quiet until short-covering in the silver market provoked a sharp rally on 28th November. Over the period the price rose \$42½ to \$428¼.

	11/28/74	11/29/74
Swiss franc	1.4535	1.4530
French franc	4.1767	4.1717
yen	240.30	240.80
<u>Exchange rate</u>		
UK	2.8183	2.7811
Swiss franc	2.5414	2.4671
French franc	8.2508	8.2004
yen	367.07	360.42
<u>Exchange rate</u>	48.7	48.5

TABLE 2

Intervention	Final
(in millions)	(in millions of £)
Canada	+ 0.4
Denmark	+ 0.2
Germany	+ 0.2
Sweden	+ 0.4
Japan	+ 2.1
UK	+ 0.2

The Swiss were principal sellers of DM (SD.4 m. worth). Belgium, Netherlands, Denmark and France sold smaller amounts of DM. There was also some intervention in French and Belgian francs and Danish crowns.

TABLE 1

<u>Exchange Rates</u>	<u>15th November close</u>	<u>3rd December close</u>
<u>Against dollar</u>		
sterling	2.1420	2.2131
DM	1.7826	1.7085
Swiss franc	1.6535	1.5650
French franc	4.1787	4.0217
yen	246.30	248.80
<u>Against sterling</u>		
DM	3.8183	3.7811
Swiss franc	3.5419	3.4635
French franc	8.9508	8.9004
yen	527.57	550.62
<u>Sterling effective</u>	68.9	69.9

TABLE 2

<u>Intervention</u> (main items)		<u>\$ bns.</u> (purchases of \$ +)
Canada	+ 0.4	
France	+ 0.2	
Germany	+ 0.2	
Sweden	- 0.4	
Japan	- 2.3	
UK	+ 0.2	

The Swiss were sizeable sellers of DM (\$0.4 mn.-worth). Belgium, Netherlands, Denmark and France sold smaller amounts of DM. There was also some intervention in French and Belgian francs and Danish crowns.

TABLE 3

EEA transactionsMarket intervention\$ mns.

+ 181

Customers

India	+	154	
Iran	+	30	(deals done before US blocked Iranian assets; dollars subsequently freed to complete the deals)
Iraq	+	22	
Kenya	+	22	
Nigeria	+	22	
EEC	-	14	

In November the reserves fell by \$81 mn. after net public sector debt repayments of \$88 mn. The overbought forward position was reduced by \$339 mn. to \$619 mn.

For December, the figures are:

spot reserves		-	384
projected overbought forward position (compared with 619 at end-November)		+	350
therefore underlying		-	651
(of which: market			+ 176)
(debt repayments			- 479)