

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 5th December 1979

Another difficult week left sterling 0.1 higher in effective terms, at 69.4, after 70.0 on Monday when the dollar went sharply lower. The dollar later recovered most of the ground. The Danish crown returned to the top of the EMS after a devaluation.

Sterling opened on Thursday morning almost a cent higher than the previous London close of 2.1680, and it tended to rise further before the weekend. The dollar was generally weaker, and good buying interest took sterling up to 2.2035 before it closed on Friday at 2.1980. More trouble in the Middle East caused the dollar to weaken again on Monday, and the pound traded as high as 2.2167, the best since late September. Wholesale price figures were favourably received. The dollar then recovered, however, and sterling fell back to 2.1752 despite the mineworkers' rejection of their union's call to strike. It closed at 2.1765. There was considerable two-way business both commercial and professional. The pound improved against the mark and the French franc, to 3.80 1/4 and 8.92 5/8. Against the ECU sterling went to 1.5353, a discount of 3/8% on the notional central rate. After their earlier falls, 3 months' euro-dollars rose to 14 1/8% but interbank sterling rates also hardened, and a fall in the cost of forward cover to 2 9/16% left the intrinsic premium on sterling little changed at 1/8%.

Developments in Iran and other Islamic centres once more dominated the course of the dollar. U.S. trade figures were slightly better; money and price figures, although not bad, were a touch disappointing. The dollar was at its weakest on Monday, after the Libyans had violated the U.S. embassy and disorder seemed to be spreading in Saudi Arabia; it firmed up on Tuesday and strengthened again on Wednesday when the Iranians hinted that there might be room for negotiations over the hostages. The Fed. bought \$230 mn., mostly against marks and mostly on Monday. The Bundesbank bought \$80 mn. that day, and \$90 mn. altogether. The mark reached a best-ever 1.7040 on Monday evening, but later fell sharply to close little changed on the week at 1.7470. The Bundesbank announced a new monetary target. The Danish crown started under some pressure - though well off the bottom of the EMS - but a 5% devaluation on Thursday night sent it straight to the top where it closed at 5.3982, 2 3/16% above the Belgian franc (28.44). Further measures are being prepared. On balance the Danes bought \$210 mn. and \$40 mn.-worth of Belgian francs; the Belgians sold \$100 mn.-worth of crowns and French francs. The French franc closed comfortably enough at 4.1010; the central bank bought \$40 mn. but sold an equivalent amount of marks. The lira went to 819.50, the news that Saudi Arabia will cease to supply ENI with oil having brought some late selling. The punt advanced to 2.1165, a 2 3/4% discount on sterling, after a modest amount of support. Outside the snake, the Swiss franc improved sharply after the levy on foreign deposits with Swiss banks was suspended, but met some selling later before closing 2% better at 1.6080. Against the mark it advanced to SF0.92. The SNB bought \$80 mn. but sold some marks. Norwegian bank rate rose 2% to 9%. The Canadian dollar was firm, helped by the discovery of some "lost" exports; and the yen had a slightly better week, improving by 1 1/4% to 246.07. The central bank sold \$600 mn.

Gold went much higher after the weekend, nearing the record levels of early October on Tuesday. The price rose \$15.20 over the period to \$426.40, after \$435 at the fix on Tuesday morning. The IMF auctioned 444,000 ozs. at an average price of \$426.37.

6th December 1979.
P.A.B.

L.A.H.

RATES, ETC.10.15 a.m.10.15 a.m.29th November 1979.6th December 19792.1775

£/\$

2.183969.5

Effective exchange rate index

69.42.11/16% p.a. disc.

Forward 3-months

2½% p.a. disc.13¼%

Euro-\$ 3-months

14 1/16%½% pre.

I.B.Comparison

3/16% pre.1.7420

\$/DM

1.73753.79¾

£/DM

3.79½8.91¼

£/FF

8.92¾249.32

\$/Yen

243.85413.50

Gold

\$4351.6337

\$/S.Fc.

1.60123.55¾

£/S.Fc.

3.49¾