

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 19th December 1979

The pound derived some strength from oil price talk but, despite Caracas, a seasonal lull descended on the exchanges after the weekend. Sterling rose 0.2 in effective terms to 69.7 after 69.9. The dollar was mixed.

The news that some oil producers would raise prices ahead of the OPEC meeting brought a swift gain for sterling on Thursday morning, when the rate rose over $1\frac{1}{2}$ cents from the London close on Wednesday to 2.2090. This level was not held, however, and the pound closed for the weekend at 2.1977 (after 2.1910 on Friday afternoon) although the trade figures were well received and the price statistics aroused little interest. Despite the Caracas meeting, a pre-Christmas torpor descended on the exchanges after the weekend and sterling traded quietly around the 2.20 level for the most part, closing towards the top of its range, at 2.2045, a gain of just under 1 cent in the period. One sizeable commercial selling order was readily absorbed. Sterling gained on the mark and the Swiss franc (to $3.81\frac{1}{2}$ and $3.53\frac{3}{8}$) but lost ground in Paris where it closed at $8.92\frac{1}{2}$. Against the ECU sterling went to 1.5386, a discount of $\frac{1}{8}\%$ on the notional central rate. With little change in interest rates, a fall in the cost of forward cover to $1\frac{13}{16}\%$ turned the covered discount against London on the usual comparison to the premium of $3/16\%$.

Although oil price talk harmed the dollar at first, better-than-expected money supply figures brought an improvement on Friday until the news of fighting between Iraq and Iran set the dollar back again in late trading. After the weekend it was mixed. Proceedings in Caracas, although confused, were perhaps no worse than feared. Some US banks reduced prime rate to 15%. The Fed bought \$30 mn. Except for a capital export of \$72 mn., the Bundesbank kept out of the market as the mark advanced $\frac{1}{4}\%$ to 1.7315. The French franc (4.05) and the Danish crown (5.3535) alternated at the top of the EMS, the French franc closing there $2\frac{1}{16}\%$ above the Belgian franc (28.15). The French bought \$50 mn.; the Belgians sold \$40 mn. and \$70 mn.-worth of French francs. The Irish sold \$10 mn. and \$120 mn.-worth of sterling; their pound closed at 2.1325, a $3\frac{1}{4}\%$ discount on sterling. The lira improved to 809.75. Outside the EMS, the Swiss franc, unlike most major European currencies, eased to 1.6040; there was no spot intervention, but the SNB bought dollars on the swap to help their money market over the year end. The Swedes, under further pressure, sold \$120 mn., and the Canadians, \$260 mn. The yen traded either side of 240, closing at 239. The central bank sold a mere \$20 mn.

Gold conquered fresh peaks. The record for a fix was \$494 on Wednesday morning, but \$496 was paid at one time. Over the week the price rose $\$42\frac{1}{2}$ to $\$488\frac{1}{2}$.

20th December 1979.
PAB

RATES, ETC.

10.15 a.m.

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<u>13th December</u>		<u>20th December</u>
<u>2.2020</u>	£/\$	<u>2.2035</u>
<u>69.7</u>	Effective exchange rate index	<u>69.7</u>
<u>1½% p.a. disc.</u>	Forward 3-months	<u>1½% p.a. disc.</u>
<u>15½%</u>	Euro-\$ 3-months	<u>14 9/16%</u>
<u>½% disc.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>1.7344</u>	\$/DM	<u>1.7348</u>
<u>3.81½</u>	£/DM	<u>3.82½</u>
<u>8.96</u>	£/FF	<u>8.94½</u>
<u>240.50</u>	\$/Yen	<u>238.55</u>
<u>\$458</u>	Gold	<u>\$480.50</u>
<u>1.5987</u>	\$/S.Fc.	<u>1.6090</u>
<u>3.52</u>	£/S.Fc.	<u>3.54½</u>