

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 9th May 1979

Apart from a brief burst of enthusiasm in the immediate aftermath of the election, sterling has generally tended easier on the liquidation of long positions taken up in anticipation of the result. The ERI fell from 67.2 to 66.7.

The pound began the week at 2.0720. Most dealers were content to await the outcome of the election but, as the opinion polls were swinging again toward the Conservatives, sterling was firmer for choice. The following morning, as the early trend in the election became known the pound was dealt up to 2.09 1/2 in the Far East, but London provided no follow-through and sterling never bettered 2.0890 here. Later, professional offerings began to come out of Continental Europe and the pound drifted off, gathering more panic sellers as it fell to 2.07 before stabilising. Sterling traded quietly and comfortably in overseas markets during the Bank holiday and reopened in London on Tuesday at 2.0810. Once again, professional selling at the higher levels provoked a sharp decline and, with Americans picking up the trend, sterling touched 2.0638. The Wholesale Price Index was not very helpful. On Wednesday, however, business was better-balanced until the Banking Statistics sparked a sell-off and the pound fell to 2.0633 before closing at 2.0644. Forward margins were little changed overall. Three months' cover cost 1 1/8% p.a.; the intrinsic discount was 1/4%.

The dollar gave up last week's gains, largely in response to a spectacular recovery by the yen, which was supported by Ohira's declared aspiration to regain the 200 level. Morinaga, too, publicly asserted the yen's attractiveness and the currency responded, not without tangible support, by climbing almost 6% to 212 before closing at 213.07. The Japanese sold over \$550 mn. The deutschemark gained 1/4% to 1.8962 and the Swiss franc 1/2% to 1.7135. The Bundesbank sold around \$125mn. in cover of capital exports; the Swiss spent over \$300 mn. (including \$30 mn. for capital exports) and swapped in \$800 mn. to relieve liquidity strains. The lira remained at the top of the wider snake closing at 846 1/4, 4 1/8% above the Belgian franc (30.31). The Italians took in \$180 mn. The Danish krone (5.3322) remained at the head of the 2 1/4% band throughout. This finished the week only slightly over 2% in width, having earlier been fully stretched at times. The Belgians sold a handful of Danish Crowns and French francs but were otherwise content. On the divergence indicator, their currency was beyond the threshold throughout and indeed moved out to 83 at the close. The French franc (4.3755) and guilder (2.0611) remained with the mark in the middle of the band, the former somewhat softer against the dollar. The punt (2.0007) closed at 3 3/16% discount on sterling and stayed on the heels of the Danish Crown. The Canadian dollar ran into further storms following the Quebec Government's announced intention to nationalise the Asbestos Corporation. It closed at 86.15 after official sales of \$800 mn.

Gold moved strongly through \$250 on Monday, fixing at \$250.20 on Tuesday morning. This level, however, provoked profit-taking and the metal retreated to \$246 before recovering to \$247.95 at Wednesday afternoon's fixing.

10th May 1979.

J.G.H.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>3rd May</u>		<u>10th May</u>
<u>2.0788</u>	£/\$	<u>2.0527</u>
<u>67.6</u>	Effective exchange rate index	<u>66.3</u>
<u>1% p.a. discount</u>	Forward 3-months	<u>1½% p.a. discount</u>
<u>10¼%</u>	Euro-\$ 3-months	<u>10 15/16%</u>
<u>1/4% discount</u>	I.B.Comparison	<u>5/16% discount</u>
<u>1.8988</u>	\$/DM	<u>1.8961</u>
<u>3.94¼</u>	£/DM	<u>3.89¼</u>
<u>9.08¾</u>	£/FF	<u>8.98¾</u>
<u>224.77</u>	\$/Yen	<u>213.55</u>
<u>\$246.25</u>	Gold	<u>\$252.15</u>
<u>1.7214</u>	\$/S.Fc.	<u>1.7147</u>
<u>3.57¾</u>	£/S.Fc.	<u>3.52</u>