

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 23rd May 1979

Rising oil prices and perhaps the prospect of public spending cuts helped sterling to gain 0.3 to 67.1 in effective terms, after 66.5 at noon on Tuesday. The dollar also improved despite heavy official sales. On the continent, a relative improvement in the mark put the Belgian franc under further pressure. The yen was weak again.

From 2.0615 at the London close on 16th May, sterling held firm at first against a strengthening dollar, later easing a little, perhaps on consideration of the money supply figures, to close on Friday at 2.0500. The tone was softer for a while after the weekend, with some professional selling from the Continent, and the rate dipped below 2.03½ at one time on Tuesday morning. Thereafter sterling improved again, although the dollar remained firm, and closed the period at 2.0580. The pound continues to benefit from continuing announcements of higher oil prices and from reports that the government intend to cut public spending soon; on the other hand, faster monetary growth and inflation are sources of concern. The cost of forward cover fell slightly to 1½%, and the covered differential against sterling was eliminated.

Rises in oil prices, together with apparent easing of the domestic economy and forecasts of a period of stability for the currency from administration leaders, brought gains for the dollar in all the main centres, despite substantial official sales. Most of the improvement came before the weekend. The Fed themselves sold \$210 mn. in the market, mostly against marks. The Bundesbank gave their currency very heavy support, selling over \$1,250 mn., some of it to cover capital exports; the mark fell 0.6% to 1.9172. The Germans reduced their intervention towards the end of the period, once the mark had moved to the top of the 2½% band in the expanded snake and put the Belgian franc under pressure. The Swiss franc fell a similar amount to 1.7375, after \$1,050 mn. of support. The yen was weak again, falling 3½% to 219.37, but the Bank of Japan intervened much less (\$280 mn.) than they had done earlier. The current account was in deficit for the second successive month in April. The Belgian franc remained bottom of the snake, closing at 30.83; the snake was mostly well-stretched, the mark taking over top position among the 2½% currencies from the Danish crown on Monday. The Belgians gave fair support, selling \$80 mn., \$40 mn.-worth of marks and some Danish crowns. There are rumours of another rise in interest rates. The French - perhaps concerned about their cross-rate with the mark, which weakened from 2.30% to 2.31½ - sold \$130 mn. and \$90 mn.-worth of marks. Their franc closed at 4.4440 against the dollar. The Dutch, while fairly comfortable, also gave their currency some support. The lira, which is not constrained by the 2½% band, closed 2½% above the mark, at 856.90 against the dollar. The Bank of Italy bought \$100 mn. The Irish pound closed at 1.9675, the discount against sterling widening to 4½% despite some support. Sterling also gained against the main continental currencies, for example, by ½% to 3.94½ against the mark and by ¼% to 9.14½ against the French franc.

Gold scaled new heights, despite the dollar's strength. The \$265.40 on Tuesday afternoon set a record for a fix; earlier, the metal had traded as high as \$266.80. On Wednesday afternoon gold fixed rather lower at \$264.15, to show a gain of \$7.65 over the week.

24th May 1979.  
PAB

RATES, ETC.

10.15 a.m. .

10.15 a.m.

17th May

24th May

2.0607

£/\$

2.0587

66,8

Effective exchange rate index

67.0

1 5/16% disc.

Forward 3-months

1 5/16% disc.

10½%

Euro-\$ 3-months

10½%

½% disc.

I.B.Comparison

parity

1.9070

\$/DM

1.9130

3.93

£/DM

3.93½

9.08

£/FF

9.13½

215.40

\$/Yen

218.90

\$257.85

Gold

\$263

1.7270

\$/S.Fc.

1.7335

3.55½

£/S.Fc.

3.56½