

SECRET

1979/2

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 30th May 1979

With the Forex convention and various holidays putting a damper on activity, sterling's effective rate was unchanged on balance at 67.1 after 66.8 on Thursday evening. The dollar was slightly softer in most centres. The Belgians raised discount rate to counter pressure in the expanded snake; the Dutch quickly followed.

From 2.0580 at the London close on 23rd May, sterling made a bright start, topping 2.06 briefly on Thursday morning, until the revelation that the PSBR in the first quarter had substantially exceeded expectations brought some selling. However, the pound attracted sufficient interest on Friday to close for the holiday weekend at just over 2.05. Although never heavy, renewed demand on Tuesday and Wednesday sufficed to take the rate yet higher, and the pound closed at 2.0598 after 2.0616. The Government's wish to curb public spending and the borrowing requirement, as well as further rises in oil prices, probably helped the tone. With little change in the cost of forward cover or in interest rates, sterling stayed around interest parity on the usual comparison.

Forex and a spate of holidays making for a quiet market, the dollar eased slightly in most centres. Mr. Miller's pronouncement on prospects for a recession caused a slight upset, but the poor U.S. consumer price figure (a rise of 1.1%) was brushed aside. Oil price increases now seem to be helping the dollar, on the grounds that they add to the amount of balances which buyers need to settle their purchases. The Fed. sold another \$250 mn., entirely against marks. Although no doubt inhibited by the mark's position in the expanded snake, the Bundesbank themselves sold \$160 mn.; the mark gained a touch to 1.9146, as Germany recorded another strong trade surplus in April. The Swiss franc improved 1/4% to 1.7328, some exchange control relaxations being announced on Wednesday; the SNB sold \$450 mn. in intervention, but bought over \$2 bn. on a swap basis to relieve money market shortages. Helped by official support - the Bank of France sold \$120 mn. and \$50 mn.-worth of marks and saw to an increase in money-market rates - the French franc also gained 1/4%, to 4.4310, bettering 2.31 1/2 against the mark. The yen, on the other hand, weakened again, by 0.3% to 220.10 after a modest \$40 mn. of support, for the usual reasons - gloom about inflation and about oil prices and supplies, and the turnaround in the current account balance of payments. In the expanded snake, the Belgians responded to continuing pressure by increasing discount rate by another 1%: their franc closed at 30.79, 2 1/4% below the mark and 4 3/4% below the lira (855). The Dutch followed with a 1/2% rise in their discount rate. The BNB sold \$120 mn.-worth of marks and the Dutch, \$30 mn.; the Italians bought \$40 mn. Of the other currencies, the Danish crown, leader of the 2 1/4% band until recently, has fallen back, closing at 5.4972 after \$70 mn. of support; and the Canadian dollar eased to 86.20 in the week following the election. Sterling closed little changed against the mark, at 3.943/8; against the French franc, it fell back to 9.12 3/4.

Gold had a hectic week. The record fix, \$276.10, came on Tuesday morning; the metal subsequently traded beyond \$278 until profit-taking caused the price to tumble over \$10. A modest recovery on Wednesday left the afternoon fixing price at \$270 1/4 for a gain of over \$6 in the period.

31st May 1979.

P.A.B.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>24th May</u>		<u>31st May</u>
<u>2.0587</u>	£/\$	<u>2.0648</u>
<u>67.0</u>	Effective exchange rate index	<u>67.2</u>
<u>1 5/16% disc.</u>	Forward 3-months	<u>1 3/16% disc.</u>
<u>10 1/2%</u>	Euro-\$ 3-months	<u>10 11/16%</u>
<u>parity</u>	I.B. Comparison	<u>1/8% disc.</u>
<u>1.9130</u>	\$/DM	<u>1.9087</u>
<u>3.93 7/8</u>	£/DM	<u>3.94 1/8</u>
<u>9.13 7/8</u>	£/FF	<u>9.13 3/8</u>
<u>218.90</u>	\$/Yen	<u>220.25</u>
<u>\$263</u>	Gold	<u>\$278.25</u>
<u>1.7335</u>	\$/S.Fc.	<u>1.7250</u>
<u>3.56 7/8</u>	£/S.Fc.	<u>3.56 3/16</u>