

10. 8.79

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COVERING SECRET

THE GOVERNORS' PRIVATE SECRETARY.

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See 13/8

DEVELOPMENTS IN THE FOREIGN EXCHANGE AND GOLD MARKETS DURING
THE DEPUTY GOVERNOR'S ABSENCE

I attach a brief note as requested.

10th August 1979.
PAB

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SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
30TH JULY - 10TH AUGUST 1979

Sterling fell sharply between the London close on 30th July and the opening on 1st August (from 2.3177 to 2.2480, having touched 2.23 in New York on Tuesday night); and again in the first half of this week (from 2.2710 to 2.2035 at one time on 8th August). Overall, the fall in effective terms was about 4½% to 70.6. There was no obvious reason for the first spell of pressure, which seemingly started in Chicago; the second was triggered by a 2¼% increase in wholesale prices. At times the market was thin and disorderly. We gave about \$300 mn. of support in these periods of pressure. Otherwise, the market was calm, and indeed sterling was in some demand after publication of another 1.1% rise in US wholesale prices on 9th August. Then, and on other occasions, we bought dollars. The large July reserve increase (published on 2nd August) probably helped sterling, and the Treasury's EPR article on the benefits of North Sea oil (8th August) certainly did, but the banking figures (7th August) were seemingly ignored. At the close to-day, sterling is back to 2.2495 (71.5). Market views span a wide range - in contrast to a couple of weeks ago when few talked of a fall in the rate. Sterling's weakness has not been reflected in the cost of forward cover, which remains around 3%, giving approximate interest parity on the usual comparison. Table 1 summarises EEA transactions.

The pound lost ground to the main continental currencies, which were a little stronger against the dollar. However, sterling apart, the exchanges were pretty quiet until the US wholesale price figures came out. Dollar support diminished. The Danish krone was in trouble at the bottom of the snake (at times 80 on the divergence indicator). Table 2 shows main exchange rates and intervention.

Gold led an exciting life. Having, like sterling, reached its zenith of \$307 on 26th July, it dropped all the way to \$282½ on 7th August on fears of forced Russian sales, before rising even more steeply to \$303¼ this afternoon.

10th August 1979.

PAB

\$ mns.

EEA TRANSACTIONS

The result for July was an increase in the reserves of 1,429 to 23,499 after net public sector and IMF debt repayments of 276. The gold/ECU swap contributed 349 (purely the effect of valuation). The overbought forward position was reduced by 286 to 1,559, but this was more than accounted for by the forward leg of the EMCF swap.

For August, the figures at the close today were:

<u>spot reserves</u>	<u>overbought forward position</u>	<u>total*</u>
- 156	+ 1,293	- 422

*of which

Market	- 85
India	+ 114
SAMA	+ 68
Ireland	+ 45
Iraq	+ 34
Nigeria	- 77
EEC	- 50
Debt repayments	- 184

EXCHANGE RATES

	<u>close</u> <u>27. 7.79</u>	<u>close</u> <u>10. 8.79</u>
against dollar		
sterling	2.3145	2.2495
DM	1.8190	1.8220
Swiss franc	1.6423	1.6455
French franc	4.2350	4.2437
yen	215.25	215.98
against sterling		
DM	4.21	4.09 $\frac{1}{2}$
French franc	9.80 $\frac{1}{2}$	9.54 $\frac{1}{2}$
sterling ERI	73.5	71.5

Intervention

Switzerland	- \$255 (and - \$27 worth of DM)
Italy	+ \$404
Germany	- \$87
Denmark	- \$163