

FE 440.07

29. 8.79

SECRET

The Governor has seen

THE GOVERNORS' PRIVATE SECRETARY

RB
3/9

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

I attach a brief note as requested.

D.A.H.B.

29th August 1979.

D.A.H.B.

SECRET

FOREIGN EXCHANGE AND GOLD MARKETS
17 August - 29 August

Having closed on the 16th at 2.2265 (ERI 71.0), sterling lost ground at first: the dollar was firmer in response to a rise (to 10½%) in the Fed discount rate. July retail prices (17 August) and trade figures (20 August) were better than expected. Apprehension before the release of the latter brought a low for the period of 2.2070 but it jumped by over 1½ cents after the announcement, to close at 2.2237. The pound firmed in rather thin markets, the pressure of demand at times requiring some smoothing intervention. There was a further improvement in overseas markets during the Bank Holiday and it stood at 2.2410 when London reopened on the 28th. Continental demand, notably from Switzerland, then pushed sterling higher to a close of 2.2510 (ERI 71.9). It opened a little lower this morning against a dollar strengthened slightly by the US trade figures which showed a deficit of only \$1.1 billion for July. The rise in US interest rates has reduced the cost of forward cover from 2½% to 1½%, but the covered comparison remains close to parity. Table 1 summarises EEA transactions.

Sterling was firmer in terms of the other main currencies, which were generally steady against the dollar, although the yen dropped sharply after a long period of stability, forcing the Japanese to intervene for the first time since June. The Danish krone remained at the bottom of the EMS. Table 2 shows the main exchange rates and intervention.

Gold was traded very actively. The US Treasury auctioned 750,000 ounces on 21st at an average price of around \$302. The price soared the next day to \$311.50. The highest fixing (also a record) was \$316.75 on the 28th.

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29 August 1979.

TABLE 2

	<u>close 16.8.79</u>	<u>10.00 a.m. 29.8.79</u>
<u>\$ against</u>		
£	2.2265	2.2473
DM	1.8293	1.8323
Swiss franc	1.6559	1.6613
French franc	4.2575	4.2725
Yen	217.02	221.60

<u>£ against</u>		
DM	4.07½	4.12½
French franc	9.47½	9.60½
Yen	483½	498½

<u>£ ERI</u>	71.0	71.9
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Intervention

Italy	+	246	
Switzerland	-	245	
Japan	-	184	
UK	+	162	
Sweden	-	89	
France	-	38	(and - \$77 worth of DM)

TABLE 1

\$ mns.

EEA TRANSACTIONS

Dealing for August has not finished. The figures for August so far at yesterday's close were:

<u>Spot reserves</u>	<u>Overbought forward position</u>	<u>Total*</u>
- 215	+ 1,657	- 117

* of which

Market	+ 37	
SAMA	+ 112	
India	+ 102	
Iraq	+ 77	
Ireland	+ 67	
Nigeria	- 111	(o/w -45 by BIS)
EEC	- 50	
Botswana	- 32	
Debt repayments	- 49	(o/w - 125 German offset)