

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 12th September 1979

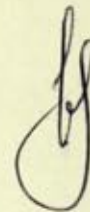
Industrial news caused sterling to be sold after the weekend, bringing a fall of 0.9 to 70.6 in effective terms. The dollar weakened in most centres despite substantial official support and yet higher interest rates. Persistent talk of a realignment of exchange rates kept the pressure on the weaker snake participants and compelled heavy intervention.

From 2.2425 at the London close on 5th September, sterling advanced at first against a dollar which was generally in poor shape, touching 2.2520 on Thursday. The market was quiet and the mood cautious. The pound brushed 2.2520 again on Monday morning, but then eased back despite acceptable wholesale price figures. Tuesday was a quiet day in London, but sterling came under pressure in New York, where it fell 1 cent, and the selling continued on Wednesday when the rate fell to 2.2175 before closing at 2.2195. Some of the selling on Tuesday night was on the Chicago exchange. General concern about the industrial situation seems to be the cause. The pound lost ground on the Continent, weakening $1\frac{1}{2}\%$ or more against the mark (4.01 $\frac{1}{2}$) and in Paris (9.38). The rate against the ECU went to 1.5938, a $5\frac{1}{2}\%$ premium on the notional central rate. Sterling's softness was not reflected in the forward discount, which rose only to $1\frac{1}{2}\%$; the intrinsic discount edged up to 3/16%.

The dollar fell in most centres, despite substantial official support and further increases in prime rates. Altogether, the Fed bought \$910 mn. against marks, mostly on Thursday and Friday when a sharper-than-expected increase in domestic prices upset the market and again on Wednesday. The Bundesbank for their part, bought only a modest \$120 mn. as the mark improved $\frac{3}{8}\%$ to 1.8089. It remained leading $2\frac{1}{2}\%$ currency in the snake, closing 2 $\frac{3}{16}\%$ above the Danish crown (5.2172, and 73 on the divergence indicator, after 79) which was under continuous pressure as devaluation talk gained ground. The central bank sold \$30 mn. and \$260 mn.-worth of marks; the Bundesbank helped by buying \$160 mn.-worth of crowns. The French franc also felt the mark's strength, closing at 4.22 $\frac{3}{8}$ against the dollar and 2.33 $\frac{3}{8}$ against the mark after official sales of \$240 mn.-worth of marks. The Belgian franc, though not bottom of the snake, crossed its divergence threshold, and the central bank sold \$400 mn.-worth of marks in support. All these currencies were affected by talk of a realignment. The other snake currencies were more comfortable. The lira closed overall top at 813.30, $3\frac{7}{8}\%$ above the crown, without intervention, and the Irish pound improved to 2.0752, a $6\frac{1}{2}\%$ discount on sterling. Outside the snake, a recovery in the Swiss franc to 1.6293 enabled the SNB to buy in \$270 mn., but the yen weakened to 222.16 after \$40 mn. of support. Oil finds and a rise in bank rate strengthened the Canadian dollar, allowing the central bank to add \$210 mn. to reserves.

Gold rose sharply in a fevered trading, to \$343 at one time on Thursday. Over the week the price increased \$8.10 to \$337.10. The \$340.85 on Thursday morning set a record for the fix.

13th September 1979.
PAB



RATES, ETC.

10.15 a.m.

6. 9.79

2.2495

71.6

1 $\frac{1}{8}$ p.a. disc.

12 $\frac{1}{2}$

=

1.8125

4.07 $\frac{1}{2}$

9.51 $\frac{1}{2}$

220.60

\$341.50

1.6448

3.70

£/\$

Effective exchange rate index

Forward 3-months

Euro-\$ 3-months

I.B.Comparison

\$/DM

£/DM

£/FF

\$/Yen

Gold

\$/S.Fc.

£/S.Fc.

10.15 a.m.

13. 9.79

2.2190

70.6

1 $\frac{1}{8}$ p.a. disc.

12 $\frac{1}{2}$

$\frac{1}{4}$ disc.

1.8086

4.01 $\frac{1}{2}$

9.37 $\frac{1}{2}$

222.50

\$335.10

1.6313

3.62