

## FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 28th November 1979

Somewhat brighter industrial news and a marked fall in dollar interest rates dispelled some of the gloom cast by earlier developments at British Leyland, leaving sterling only 0.3 lower in effective terms at 69.3 after 69.0. The dollar had a slightly easier tendency. Sweden and the Netherlands raised interest rates. Some relaxations on capital inflows brought the yen no comfort, and it was massively supported again.

Sterling opened brightly on Thursday morning at 2.1790, slightly up from the previous close, but this proved to be the highest level of the week as gloomy Treasury forecasts soon dampened enthusiasm. Commercial selling on Friday took the rate down to 2.1532 before it recovered to close for the weekend at 2.1597. Poor industrial news, from BL in particular, brought the sellers out again on Monday, when sterling touched 2.1477; but a remarkable fall in dollar interest rates, together with better news from BL (where the AEUW, and later the TGWU, recommended a return to work), gave sterling a firmer appearance, and the rate breasted 2.17 a couple of times before closing at 2.1680 for a net fall of just under 1 cent over the week. The pound also yielded some ground on the Continent, closing  $\frac{3}{8}\%$  down at 3.78 $\frac{1}{2}$  against the mark and at 8.89 $\frac{1}{2}$  in Paris. Against the ECU it eased to 1.5295, a discount of  $\frac{1}{8}\%$  on the notional central rate. Euro-dollar rates fell sharply, to 13 $\frac{3}{8}\%$  (after 13  $\frac{5}{16}\%$ ) for 3 months' deposits. The cost of cover rose to 2 $\frac{1}{8}\%$ , and interbank sterling rates eased, but the covered differential was little changed at 3/16%.

US interest rates had most influence on the dollar's course in the week. Federal funds rate eased back; several banks reduced their prime rate to 15 $\frac{1}{2}\%$  and one, Chase Manhattan, to 15 $\frac{1}{4}\%$ . Money supply showed little change. Consumer prices rose 1% in October, a better result than many had expected. The situation in Iran remained highly confused, and there were scares elsewhere, but events did not take a clear turn for the worse. The Fed bought \$20 mn. in the market. The dollar weakened in several centres. The mark touched 1.7365 before closing  $\frac{1}{2}\%$  stronger at 1.7475, the Bundesbank having bought \$100 mn. (and sold nearly \$1 $\frac{1}{2}$  bn. on the swap to control the domestic money market). It rose to second place in the EMS, just below the French franc (4.1050) which finished 1 $\frac{1}{2}\%$  above the lowest currency, the Belgian franc (28.47). The French bought \$60 mn.; the Belgians sold \$20 mn.-worth of French francs. The Danes sold \$50 mn. and \$30 mn.-worth of marks in order to brake their currency's fall. Of the other snake currencies, the lira closed at 820.75 and the Irish pound at 2.1110, a 2 $\frac{1}{8}\%$  discount on sterling, with \$30 mn. and a few pounds added to reserves. The guilder closed at 1.9505 after another 1% rise in discount and Lombard rates. The central bank gave some \$50 mn.-worth of support, mainly by selling marks. Outside the EMS, the Swiss franc eased to 1.6417 against the dollar, but it was a weakening cross-rate against the mark (SF 0.94 after nearly SF 0.94 $\frac{1}{2}$ ) which prompted \$260 mn.-worth of official support, all achieved by sales of marks. The discovery that exports have been under-recorded, lower US interest rates, and safe domestic oil supplies combined to cheer up the Canadian dollar; the central bank added \$40 mn. to reserves. However, a 9% bank rate did little to help the Swedish crown, and the yen had another wretched week. At one time it touched 251 $\frac{1}{2}$ ; some measures to encourage inflows brought a sharp but short-lived recovery to 245 $\frac{1}{4}$ ; it closed at 249.15,  $\frac{1}{2}\%$  down on the week, after another \$1,470 mn. of support which has now exceeded \$15.7 bn. since last November.

Gold started quietly, but rose in a livelier market on Wednesday to \$411.20, a gain of \$15 in the week.

29th November 1979.

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RATES, ETC.10.15 a.m.10.15 a.m.22nd November 197929th November 19792.1720

£/\$

2.177569.4Effective exchange rate index 69.51¼% p.a. disc.

Forward 3-months

2 11/16% p.a. disc.14¾%

Euro-\$ 3-months

13¾%½% pre.

I.B.Comparison

½% pre.1.7533

\$/DM

1.74203.80¼

£/DM

3.79¾8.94¾

£/FF

8.91¾247.70

\$/Yen

249.32\$395.13

Gold

\$413.501.6420

\$/S.Fc.

1.63373.56¾

£/S.Fc.

3.55¼