

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 12th December 1979

Sterling rose 0.1 in effective terms to 69.5 after 68.6 at the opening on Monday. After a firm start, the dollar weakened as attention focussed on the forthcoming OPEC meeting. The yen made a spectacular recovery but later gave ground.

A flurry of buying on Wednesday evening took sterling from 2.1765 at the London close to 2.1875 in New York, but the market then turned quietly hesitant and the pound eased back to 2.1755 on Friday afternoon against a generally firmer dollar. Selling in New York took the rate down to 2.1645 that evening; by Monday, however, sterling was firmer again and, once a large commercial selling order was done with, it tended to improve, sharing fully with other currencies in the dollar's weakness on Tuesday and Wednesday. The rate closed at 2.1953, a rise of nearly 2 cents on the week, after 2.2045. The banking figures had little effect; the industrial situation looked brighter; and apprehension ahead of the OPEC meeting may have benefitted sterling which was however unchanged against the mark (at 3.81½) though stronger in France (8.94½) and Switzerland (3.50½). Against the ECU sterling closed at 1.5365, a ¼% discount on the notional central rate. 3-months' eurodollars went higher and, although the cost of forward cover fell to 2 3/16%, an intrinsic discount of ¼% emerged.

A fall in money supply helped keep the dollar firm before the weekend, but it later fell in most centres. More prime rates went down to 15½%. The Fed bought \$230 mn. against marks. The Bundesbank, for their part, bought \$80 mn. as the mark advanced to 1.7367 (after 1.7270). The French franc (¾% stronger at 4.0750) took over top place in the EMS from the Danish crown (5.3772), closing 1½% above the Belgian franc (28.27). The Belgians increased bank rate by ½% to 10½%, and sold \$130 mn. and \$40 mn.-worth of French francs and crowns. The French bought \$50 mn., and the Danes, \$20 mn. At times the Belgian franc was over its threshold of divergence; it closed at 72 on the index. The Irish pound advanced to 2.1232, a 3¼% discount on sterling. The central bank bought a few dollars but sold \$50 mn.-worth of sterling. A 3% increase in bank rate, announced late last Wednesday, helped the lira improve to 812.15. Outside the EMS, the Swiss franc hardened to 1.5985, the SNB contenting themselves with buying dollars on the swap to ease their money market. The Bank of Canada added \$100 mn. to reserves. Hectic short-covering - together perhaps with Middle Eastern interest - brought the yen a startling change of fortune; it improved almost 7% to 229 at one time on Tuesday, later shedding some of the gain to close at 238.20. On balance the Bank of Japan sold \$40 mn. The Swedish crown however remained under pressure.

Gold rose sharply on Tuesday and Wednesday, despite the prospect of Canadian sales. Buying from the Middle East was reported. The record fix was \$449½ on Wednesday, \$452½ per ounce having been paid earlier in Hong Kong.

13th December 1979.
PAB

Jm

PP.

RATES, ETC.

10.15 a.m.

6.12.79

2.1839

69.4

2½% p.a. disc.

14 1/16%

3/16% pre.

1.7375

3.79½

8.92½

243.85

\$435

1.6012

3.49½

£/\$

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.

13.12.79

2.2020

69.7

1½% p.a.

15½%

¾% disc.

1.7344

3.81½

8.96

240.50

\$458

1.5987

3.52