

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 28th January 1981

In active exchange markets both the dollar and sterling moved to new high levels. The weakness of the deutschemark and a positive market response to the Reagan administration provoked a resumption of the heavy flows into the dollar seen last autumn. Sterling remained a little on the sidelines, holding firm against an improving dollar. The ERI rose 1.4 to a record 81.6.

Sterling traded in an extremely narrow range throughout the week while the dollar strengthened steadily in all other centres. Turnover in sterling was, in the main, not particularly heavy and although there was some professional and commercial buying, official demand was relatively low. Sterling's strength seemed at times more a reflection of the absence of sellers, rather than the result of strong buying interest. After closing in New York on Wednesday night at 2.4137, sterling opened in London on Thursday at 2.4155 and moved up steadily against an initially slightly easier dollar on buying from Europe and the Middle East to touch 2.4225 in mid-morning. Then, as the dollar's upward drive commenced the rate eased back to trade between 2.40½ and 2.42 for the remainder of the period before the weekend. After the weekend, having touched 2.4240 in New York on Monday night, sterling tended to move towards the lower end of the same trading range, dipping to 2.4035 on Wednesday afternoon as the dollar moved to new highs but ending on a very firm note at 2.4117. The pound again made very large gains in Europe, setting new benchmark levels in all centres. In Germany it rose 3¼% to 5.01¼, in Switzerland 3¼% to 4.53¼ and in France 3¼% to 11.57, levels last seen almost 5, 5 and 6½ years ago respectively. An all-time high of 2383 was set against the lira on Wednesday. Against the ECU sterling went to 1.9280, a premium of 20% on the notional central rate. Three-months Euro-dollars were little changed over the week closing at 18 3/16% after allowance for technical factors. With little change in sterling's forward premium but easier sterling interbank rates the covered differential in favour of London remained at 1/16%.

Firm US interest rates, a favourable reaction to the arrival in office of the Reagan administration and the weakness of the deutschemark following renewed concerns about industrial unrest in Poland, all made for a stronger dollar. The mark fell 4¼% to 2.0785 (after 2.0875), a level last seen over 2½ years ago, after support of \$360mn. by the Fed and \$80mn. by the Bundesbank. Pressure increased in the EMS where the mark finished only narrowly ahead of the Belgian franc (33.35) which was 2¼% from the French franc (4.7972) at the top. The Belgians sold \$50mn.-worth and the Germans \$20mn.-worth of French francs, and the French bought \$95mn.-worth of Belgians francs and deutschemarks. The lira (988) closed 3 15/16% below the franc after sales of \$35mn. Elsewhere, although the Swiss franc (1.8787) lost 3¼% against the dollar, it improved to 0.90¼ against the deutschemark. The yen weakened less than the Continental currencies, falling 2% to 203.57. Despite last week's monetary package the Swedish crown continued under very heavy pressure and the Riksbank sold a further \$730mn. (making \$1.8bn. so far this month). The Canadian dollar also required support and the Bank of Canada sold \$160mn., net.

Gold was very weak, hit by the strength of the dollar and the continued high cost of running a position. The first fixing was at \$567, but the price immediately started to give ground and although it held above the \$550 level before the weekend, it thereafter dropped precipitately, to bottom at \$517 at the morning fixing on Tuesday. The final fixing was at \$523½, a fall of \$58 on the week.

28th January 1981.
TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

22nd January

29th January

2.4208

E/\$

2.4050

80.5

Effective exchange rate index

81.6

4½% pre.

Forward 3-months

3½% pre.

18 11/16%

Euro-\$ 3-months

17½%

3/16% pre.

I.B.Comparison

3/16% pre.

2.0102

\$/DM

2.0960

4.86½

E/DM

5.04

11.25½

E/FF

11.58½

200.15

\$/Yen

204.17

\$569

Gold

\$507

1.8218

\$/S.Fc.

1.8917

4.41

E/S.Fc.

4.55