

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 4th February 1981

Exchange markets were active and volatile. The unrest in Poland put further pressure on the deutschemark and encouraged new flows into the dollar, carrying it to its best levels for three years in many centres. As hopes grew for an early cut in MLR, sterling gave ground against the dollar although it remained firm on the Continent. The ERI fell from 105.6 to 104.1 (80.3 on the old index).

Sterling's earlier stability around the 2.40 level ended during the week following a renewed surge in the dollar and indications from the Prime Minister that a further cut in MLR might not be long delayed. Although there was heavy selling at times, particularly from Switzerland and the US, considerable commercial demand emerged at the lower levels. After closing in New York on Wednesday night at 2.41, sterling opened in London on Thursday at 2.4047 and, although initially remaining on the sidelines while the dollar firmed, it fell back on Friday in the face of Swiss and American selling to close that evening at 2.3755. After the weekend, with growing expectations of a cut in MLR, sterling was sold down from its opening level of 2.3815 throughout the day and, as the dollar strengthened further on Tuesday, the rate fell to 2.3245 in early business before commercial buyers appeared. The demand encouraged short covering by professional operators and the rate ended the period at 2.3535, a fall of 6 cents on the week. The pound was only a little weaker on the Continent, losing $\frac{1}{2}\%$ to 4.99 $\frac{1}{2}$ in Germany, $\frac{3}{4}\%$ to 11.49 $\frac{1}{2}$ in France and $\frac{1}{2}\%$ to 4.51 $\frac{1}{2}$ in Switzerland, after new highs of 5.02 $\frac{1}{2}$, 11.59 $\frac{1}{2}$ and 4.56 $\frac{1}{2}$ respectively had been set on Friday. Against the ECU sterling went to 1.9189, a premium of 19 $\frac{3}{4}\%$ on the notional central rate. Euro-dollars eased over the week, three-month deposits closing at 17 7/16%, after allowance for technical factors. Sterling's forward premium was 4 $\frac{1}{2}\%$ and the covered differential in favour of London widened to $\frac{1}{4}\%$.

Although US interest rates fell over the week, with primes moving $\frac{1}{2}\%$ lower to 19 $\frac{1}{2}\%$, the growing industrial unrest in Poland kept the deutschemark under heavy pressure. The dollar rose a further 3% against European currencies, to establish new three-year highs, but closed below its best levels. Larger scale support was provided for the mark, which finished at 2.1205 (after 2.1625), than in any recent week, with the Fed selling \$500mn. and the Bundesbank \$400mn. EMS was fully stretched with the mark replacing the Belgian franc at the bottom of the narrower band, 2 $\frac{1}{4}\%$ below the French franc (4.8825) after German and Belgian sales of French francs worth \$90mn. and \$250mn. respectively. In addition, the Bank of France bought DM worth \$210mn. and Belgian franc worth \$50mn. The lira (1006) fell to 4% below the franc despite further credit controls and \$150mn. net, of support. Elsewhere, the Swiss franc (1.9192) weakened in line with the mark despite sales of \$50mn. and a $\frac{1}{2}\%$ rise in discount rate to 3 $\frac{1}{2}\%$. Only the yen stood out against the dollar, closing a little firmer at 203.05. Pressure on the Swedish crown eased and the Riksbank was able to recoup \$60mn. but the Norwegians provided \$50mn. by way of support for their crown. The Canadian dollar stood relatively firm and no net support was required.

Gold suffered both from the strength of the dollar and the continuing high level of US interest rates. Heavy selling was seen both from Middle Eastern sources and by commission houses at various times and the price fell through \$500 to fix at \$482 on Tuesday morning. Sizeable support, however, appeared at the lower levels and the price recovered to \$505 at the afternoon fix on Wednesday, a fall of \$18 over the week.

4th February 1981.

TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

29th January

5th February

2.4050

£/\$

2.3470

105.5

Effective exchange rate index

103.9

3 $\frac{7}{8}$ % pre.

Forward 3-months

4 3/16% pre.

17 $\frac{1}{8}$ %

Euro-\$ 3-months

17 $\frac{1}{8}$ %

3/16% pre.

I.B. Comparison

$\frac{1}{4}$ % pre.

2.0960

\$/DM

2.1265

5.04

£/DM

4.99

11.58 $\frac{1}{8}$

£/FF

11.50 $\frac{7}{8}$

204.17

\$/Yen

202.50

\$507

Gold

\$495

1.8917

\$/S.Fc.

1.9167

4.55

£/S.Fc.

4.49 $\frac{7}{8}$