

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 18th February 1981

The exchanges were nervous and volatile, awaiting President Reagan's statement on the economy. In the early part of the week the dollar experienced further inflows and set new benchmark levels in Europe, but as rumours circulated that a deutschemark support package was imminent, the gains were largely surrendered. MLR and industrial worries combined to depress sterling. The ERI fell 2.0 to 102.2.

Troubles looming on the industrial front, in the shape of strikes by the miners and water workers, together with growing expectations of an MLR cut, gave sterling a weaker tone than for many weeks past. The encouraging fall in the RPI and the huge trade surplus for January had only a very temporary impact. Selling was widespread rather than heavy, and the pound lost ground both against the dollar and in Europe. Sterling closed at 2.3345 on Wednesday night in New York, opened at 2.3285 in London on Thursday and, after touching 2.3305 in early business, started to give ground against a strengthening dollar. Sizeable selling from the US developed on Friday and sterling fell back sharply to close at 2.2895 before the weekend. On Monday, following discussion in the weekend press about a cut in MLR and with the dollar moving to new highs in Europe, sterling met some professional selling from Switzerland and went to 2.2492 before recovering to 2.2635 that night. Although the dollar weakened on Tuesday and Wednesday, sterling failed to respond and continued to trade around the 2.26-2.27 level. The rate ended the period at 2.2775 a fall of 6 cents on the week. For the first time in many weeks sterling lost ground on the continent as well, falling 2% against the mark to 4.92½ (after 5.06½ on Monday), 2% in Switzerland to 4.47 (after 4.61½) and 1½% in France to 11.40½ (after 11.71½). Against the ECU sterling went to 1.9016 a premium of 19% on the notional central rate. Three-month Euro-dollars were almost unchanged over the week but sterling's forward premium narrowed to 4% and the covered differential accordingly moved to ½% against London.

The dollar ranged widely over the week. After reaching its best levels for over three years in Europe on Monday, a sharp turnaround occurred later in the week as expectations grew that higher interest rates and other measures to support the mark would shortly be introduced. After falling to 2.2550 on Monday afternoon, the deutschemark ended the week little changed at 2.1620 after sales of \$600mn. by the Bundesbank and \$160mn. by the Fed. The pressure on the mark increased the strains in the EMS, where considerable intervention was necessary to maintain margins. By the close, however, the Belgian franc (34.75) the weakest currency in the narrower band, was only 1½% below the French franc (5.0087) after sales by the National Bank of French francs worth \$330mn. and purchases by the Bank of France of Belgian francs worth \$65mn. In addition, the French sold \$35mn. and bought \$100mn. of deutschemarks, while the Germans sold \$110mn. of French francs and the Irish sold \$45mn. The lira (1028.50) closed 3½% below French franc after sales of \$160mn. Elsewhere, the Swiss provided \$75mn. in support of the franc (1.9625). The Norwegian crown was in strong demand for oil tax payments and its strength seemed to rub off on the Swedish crown, enabling the Riksbank to recoup \$300mn. The yen was a little weaker closing 1% lower at 205.97. Some support was necessary for the Canadian dollar and the Bank of Canada sold \$200mn.

Gold was a fairly active market but the price moved in a surprisingly narrow range, given the volatility of the dollar. The first fixing was at \$493.50 and although the price moved down to fix at \$487 on Monday morning as the dollar reached new highs, it recovered as the dollar fell, reaching \$505 on Wednesday afternoon, a rise of \$4 over the week.

18th February 1981.

RATES, ETC.

10.15 a.m.

10.15 a.m.

12th February 1981

19th February 1981

2.3270

£/\$

2.2739

104.5

Effective exchange rate index

102.1

4 $\frac{7}{8}$ % pre.

Forward 3-months

4 $\frac{3}{8}$ % pre.

18 $\frac{1}{8}$ %

Euro-\$ 3-months

17 $\frac{3}{8}$ %

1/16% pre.

I.B. Comparison

3/16% pre.

2.1755

\$/DM

2.1637

5.06 $\frac{1}{4}$

£/DM

4.92

11.64 $\frac{7}{8}$

£/FF

11.42 $\frac{3}{8}$

204.70

\$/Yen

205.82

\$494.25

Gold

\$505

1.9880

\$/S.Fc.

1.9540

4.62 $\frac{5}{8}$

£/S.Fc.

4.44 $\frac{3}{8}$