

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 11th March 1981

Exchange markets were quiet but nervous this week due both to the UK Budget and uncertainty over German interest rates. The dollar eased after the weekend but sterling was firmer in effective terms, closing at 99.3, a rise of 0.6 over the week.

The sterling market was very quiet in the run up to the Budget, although activity increased just before and after the Chancellor's speech. Having closed in New York at 2.2145 on Wednesday night, sterling opened at 2.2025 on Thursday and traded quietly in a narrow range. The following day it opened at 2.19 in reaction to dollar gains in the Far East, and drifted down to 2.1845 by mid-day, when professional and commercial selling depressed it further to 2.1795; it later recovered in calmer markets to close at 2.1937, but then weakened to close at 2.1880 in New York. On Monday, the rate eased on small amounts of selling from the Continent to 2.1837 shortly before noon; but in the afternoon, as New York entered the market, sterling moved up to 2.2160 on sizeable commercial and professional demand, prompted by growing belief that MLR would be cut by only 2% as opposed to the 3-4% which had been forecast. Sterling opened at 2.2095 on Budget day and after firming to 2.2160 began to move down in active trading, reaching 2.2055, with some banks apparently prepared to go into the Budget with short sterling positions. The rate recovered to reach 2.2115 by noon but was nominally quoted down to 2.20 over lunchtime; it recovered in very thin markets to close at 2.2150 before the Chancellor had reached the main part of his speech. Following the major announcements, the rate moved widely in a thin market to reach 2.23½ but retreated to close at 2.2062 in New York. Sterling moved up to 2.23 on Wednesday morning on commercial and professional buying but later eased as the dollar strengthened, and closed at 2.2200. The pound was relatively stable on the Continent, closing virtually unchanged against the deutschemark (4.70½) and French franc (11.07½) and rising ¼% against the Swiss franc to 4.30½. Against the ECU there was also little change: at 1.8469, the premium was 16.56% on the notional central rate. Three-month Euro-dollar rates were lower, and with interbank sterling a little higher, sterling's forward premium fell to 2.35%. The covered differential moved to ¼% against London.

The dollar began the week firm with Fed Funds remaining above 16% but weakened after an unexpected fall in the monetary aggregates and fell further as major banks cut their primes to 18% on Tuesday. German short-term interest rates remained high and the mark (2.1187) retained its position at the top of the EMS for most of the week but was eased out at the end by the French franc (4.9900). The French sold DM worth \$260mn. The Belgian franc (34.74) remained at the bottom, often more than 2½% below the strongest currency, with its divergence indicator registering over 80; the National Bank sold \$210mn.-worth of DM, \$69mn. of French francs and \$2mn. of Dutch florins. The lira (1025.25) was 3½% adrift and the authorities sold \$244mn. The Swiss franc (1.9410) showed little change over the week, while the Swedish crown (4.6120) and the yen (207.62) made small gains. The Canadian dollar was comfortable and the authorities were able to buy \$77mn.

Gold was an active market. Having fallen to a 15-month low of \$457 at the first fixing on Thursday, lower US interest rates and the rising price of platinum pushed the price to \$487.25 on Tuesday despite heavy selling from the Far East. This selling reappeared on Wednesday morning and the price closed at \$476.25, a gain of \$10¼ over the week.

11th March 1981.

C.F. SERGEANT *CAS**JAMB.*

RATES, ETC.

10.15 a.m.

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<u>5th March</u>		<u>12th March</u>
<u>2.2030</u>	<u>£/\$</u>	<u>2.2169</u>
<u>98.7</u>	<u>Effective exchange rate index</u>	<u>99.0</u>
<u>4$\frac{3}{8}$% pre.</u>	<u>Forward 3-months</u>	<u>2 9/16% pre.</u>
<u>16 11/16%</u>	<u>Euro-\$ 3-months</u>	<u>15 7/16%</u>
<u>$\frac{1}{2}$% pre.</u>	<u>I.B.Comparison</u>	<u>3/16% disc.</u>
<u>2.1280</u>	<u>\$/DM</u>	<u>2.1127</u>
<u>4.68$\frac{1}{4}$</u>	<u>£/DM</u>	<u>4.68$\frac{3}{4}$</u>
<u>11.04$\frac{1}{4}$</u>	<u>£/FF</u>	<u>11.04$\frac{1}{4}$</u>
<u>207.92</u>	<u>\$/Yen</u>	<u>207.25</u>
<u>\$457</u>	<u>Gold</u>	<u>\$475</u>
<u>1.9357</u>	<u>\$/S.Fc.</u>	<u>1.9322</u>
<u>4.26$\frac{1}{2}$</u>	<u>£/S.Fc.</u>	<u>4.28$\frac{1}{2}$</u>