

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 1st April 1981

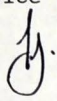
Movements on the exchanges were dictated by political developments this week. After strengthening sharply before the weekend, the dollar fell back when the Polish strike threat was withdrawn and President Reagan was shot. Sterling also firmed on the Polish news but later gave up its gains; the ERI closed 0.4 lower at 100.2.

Although there were periods of considerable activity, sterling was a relatively quiet market for most of the week and the rate moved in a fairly narrow range against the dollar. After closing in New York on Wednesday night at 2.2647 sterling opened in London on Thursday at 2.2620 and, having touched 2.2625, traded quietly all day. However, when the dollar strengthened overnight in New York sterling fell back to 2.2285 and as some official buying of dollars against pounds also appeared on Friday the rate dropped to 2.2220 before a recovery occurred. Following the weekend, sterling came into some professional demand from European banks and the rate moved up steadily throughout Monday to close at 2.2625 that night in New York following the attack on President Reagan. As it became clear on Tuesday that the injuries to the President were not too serious the dollar recovered and sterling eased back to trade between 2.23½-2.24½ for most of the remainder of the period, ending the week at 2.2410, 1½ cents lower over the week. Sterling lost some ground on the Continent as well, falling ¼% against the deutschemark to 4.70½, ½% against the French franc to 11.09½ and ¼% against the Swiss franc to 4.29½. Against the ECU sterling moved to a premium of ½% on the notional central rate. Euro-dollar rates were a little lower over the week, three-months deposits closing at 14½%. Sterling's forward premium narrowed to 1½% and the covered differential widened to ¾% in favour of London.

The threat, and subsequent withdrawal, of the proposed strike in Poland together with the attempted assassination of President Reagan on Monday night caused some sharp fluctuations in the dollar during the week although over the period as a whole it was little changed. Both the Fed and the Bundesbank intervened to provide small amounts of support for the dollar at this time and the deutschemark closed almost unchanged at 2.0980. In the EMS, the pressures on the Belgian franc intensified as the Belgian Government tendered its resignation. Discount and Lombard rates were both increased by a further 3% to 16% and 18% respectively and a short-term price freeze was also introduced. By the close the franc (34.42) was 2½% below the deutschemark but over the week as a whole support totalling over \$1.1bn. (making almost \$2bn. equivalent in March), largely in deutschemarks, was provided by the National Bank. The French, too, sold deutschemarks worth \$400mn. to forestall any pre-election nervousness and to keep the franc (4.9522) very close to the top of the grid. The Irish punt (1.7355) sank closer to the bottom of the band despite support of \$200mn., and the Danes sold \$75mn. The lira (1047) closed ½% below the mark after support of \$350mn. Outside EMS the Swiss franc (1.9165) slipped to 0.91½ against the deutschemark and the yen (211.85) lost a further 1%. The Swedish crown was again firm and the Riksbank bought \$200mn.

Gold was an active and volatile market. The price moved up quickly before the weekend to fix at \$547.25 on Friday morning as fears grew that the Russians might invade Poland. After the weekend, as the prospect of an early confrontation receded, the price fell equally quickly. The final fixing was at \$514.25, a fall of \$14 over the week.

1st April 1981.
TRS



RATES, ETC.

10.15 a.m.

10.15 a.m.

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| <u>26th March</u> | | <u>2nd April</u> |
| <u>2.2611</u> | £/\$ | <u>2.2390</u> |
| <u>100.8</u> | Effective exchange rate index | <u>100.1</u> |
| <u>2$\frac{1}{8}$% pre.</u> | Forward 3-months | <u>1 15/16% pre.</u> |
| <u>14 15/16%</u> | Euro-\$ 3-months | <u>14$\frac{1}{2}$%</u> |
| <u>$\frac{1}{8}$% disc.</u> | I.B.Comparison | <u>1/16% pre.</u> |
| <u>2.0915</u> | \$/DM | <u>2.0960</u> |
| <u>4.72$\frac{1}{2}$</u> | £/DM | <u>4.69$\frac{1}{2}$</u> |
| <u>11.15$\frac{5}{8}$</u> | £/FF | <u>11.08</u> |
| <u>210.10</u> | \$/Yen | <u>212.62</u> |
| <u>\$534</u> | Gold | <u>\$517</u> |
| <u>1.9055</u> | \$/S.Fc. | <u>1.9130</u> |
| <u>4.30$\frac{7}{8}$</u> | £/S.Fc. | <u>4.28$\frac{3}{8}$</u> |