

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 15th April 1981

The uncertain course of US interest rates dictated events on the exchanges this week and the dollar gained considerable ground. Sterling traded comfortably, for the most part, and saw some sizeable two-way business at times. The ERI fell from 99.4 to 98.9.

The pound lost around 2 cents in New York late on Wednesday, as the dollar advanced strongly, and began at 2.1953 on Thursday morning. A large buying order on overseas official account cushioned the impact of the firmer dollar and sterling touched 2.2007 before profit-taking set in. Friday was quiet and the pound fluctuated around 2.19. That evening the publication of an unexpectedly large increase in US money supply took the dollar sharply firmer and, on Monday morning, sterling met widespread selling, falling to 2.1515 at one stage. Later that day, however, a large commercial buyer of pounds appeared in New York and maintained a presence throughout Tuesday, when the rate recovered to 2.1770. On Wednesday, with the dollar a little firmer, sterling retreated quietly in the absence of commercial support and finished the week at 2.1635. Sterling gained a little on the Continent, rising by $\frac{1}{2}\%$ against the deutschemark to 4.69 $\frac{1}{2}$, $\frac{1}{4}\%$ against the French franc to 11.08 $\frac{1}{2}$ and $\frac{1}{2}\%$ against the Swiss franc to 4.28 $\frac{1}{2}$. Against the ECU sterling's premium over its notional central rate rose to 7/16%. Three-month Euro-dollars hardened by over 1% to 16 $\frac{1}{2}\%$. Sterling's forward premium widened to 4% p.a. and the covered differential remained at $\frac{1}{2}\%$ in favour of London.

Apart from the monetary aggregates, the dollar reacted to a surprisingly small increase in retail sales in March but quickly recovered as funds remained fairly tight before the 15th April tax date. Against the deutschemark it improved by 2 $\frac{1}{2}\%$ to 2.1710, with the Bundesbank selling over \$150mn. In EMS, the pressure on the Belgian franc (35.58) was greatly reduced, enabling the authorities to cut discount rate from 16% to 15% and Lombard rate from 18% to 17%. The franc finished the week 2 3/16% distant from the deutschemark, the Belgians selling deutschemarks equivalent to \$25mn. The French, too, sold over \$100mn.-worth of the German currency and the Irish spent around \$60mn. Elsewhere, the Swiss franc (1.9810) eased slightly to 0.91 $\frac{1}{2}$ against the deutschemark but the yen lost around 1 $\frac{1}{2}\%$ to 216.20, despite a much improved trade surplus in March. The Swedes were able to recoup around \$200mn. but the Canadians lost a similar sum when their dollar weakened ahead of the elections in Quebec.

Gold was very weak throughout, reflecting the pervading bearish sentiment for all metals. Business took place down to \$470 on Monday but, after a modest recovery, the metal was fixed at \$476.25 on Wednesday afternoon, \$32.25 lower over the week.

JGH 15th April 1981.

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
9th April		16th April
2.1940	£/\$	2.1565
99.2	Effective exchange rate index	99.0
3 $\frac{3}{8}$ % pre.	Forward 3-months	4 $\frac{3}{8}$ % pre.
15 9/16%	Euro-\$ 3-months	16 $\frac{3}{8}$ %
1/16% pre.	I.B.Comparison	-
2.1382	\$/DM	2.1850
4.69 $\frac{1}{8}$	£/DM	4.71 $\frac{1}{8}$
11.07	£/FF	11.13
213.60	\$/Yen	217.00
\$511	Gold	\$478
1.9470	\$/S.Fc.	1.9890
4.27 $\frac{1}{8}$	£/S.Fc.	4.28 $\frac{1}{8}$