

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 3rd June 1981

After months spent largely on the sidelines, sterling became the centre of attention in the markets during the week. Heavy professional selling was seen on most days as underlying concerns about the current state of the UK economy were brought into sharper focus by falling world oil prices. In active and heavy trading the ERI dropped 1.8 to 96.9, the lowest level since it was rebased. Elsewhere, tight conditions in the US domestic market kept the dollar very firm.

Sterling closed in New York on Wednesday night at 2.07, opened in London on Thursday half a cent lower and initially eased back in a quiet market in the face of some small-scale commercial selling. However, as Fed Funds traded down in New York and Chase Manhattan reduced its prime rate $\frac{1}{2}\%$ to $20\frac{1}{2}\%$, the dollar weakened generally and during Friday morning sterling rose to reach 2.0770. Following the decline in the US money supply announced on Friday evening, sterling opened firmer on Monday touching 2.0802 in early business but very soon the dollar started to recover and sterling began to come under pressure. As the selling developed out of Europe, particularly Switzerland, sterling fell to 2.0585 during Monday afternoon despite a steady stream of commercial buyers. On Tuesday, as US short-term interest rates rose again and the dollar moved to new benchmarks levels in most European centres, the volume of selling increased and sterling lost ground against all the major currencies closing at 2.0395 that afternoon. Following a cut in oil prices by a major producer, the pattern was repeated on Wednesday with heavy European selling in the morning taking sterling to a low of 2.0115 before some modest profit taking brought a slight but nervous recovery to 2.0155. Sterling weakened sharply on the Continent falling by $1\frac{1}{2}\%$ against the mark to 4.75 $\frac{1}{2}$, by $1\frac{1}{2}\%$ against the French franc to 11.24 $\frac{1}{2}$ and by 2% against the Swiss franc to 4.21. Against the ECU sterling's premium over its notional central rate declined to $1\frac{1}{2}\%$. After technical adjustment, three-months Euro-dollars eased by $\frac{1}{8}\%$ to close at 17 $\frac{1}{8}\%$ but sterling's forward premium narrowed to 5 5/16% and the intrinsic discount widened to 3/16% against London.

Although the money supply declined in the latest week and prime rates moved a notch lower, Fed Funds were extremely tight in New York in the latter days of the week, taking the dollar to new highs in most centres. There was little attempt to resist the dollar's improvement by European central banks and the Bundesbank sold only \$22mn., the mark closing at 2.3603 (after a four-year low of 2.3713). With the pressure off the French franc (5.5790) EMS was relaxed and the Belgian franc (38.46) closed only $1\frac{1}{8}\%$ distant from the mark after sales of \$63mn. Although the lira set a new all-time low of 1175.62 on Tuesday, it closed comfortably in the EMS at 1173.75 and the Bank of Italy was able to recoup \$150mn. Elsewhere the Swiss franc touched a four-year low of 2.0987 but held very firm against the mark at 0.88 $\frac{1}{2}$ to close at 2.0885. The yen (223.25) moved against the general trend, gaining 1% over the week. The Swedish crown fell to a 10-year low of 5.0090 but the Riksbank bought \$35mn., while the Canadians sold \$160mn.

Gold remained a quiet market with the price trading in a narrow range. The final fixing was at \$475.50, a rise of \$9 over the week.

3rd June 1981.

TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

28th May 1981

4th June

2.0654

£/\$

1.9425

98.8

Effective exchange rate index

94.2

6 $\frac{1}{8}$ % p.a. pre.

Forward 3-months

5 $\frac{3}{8}$ % p.a. pre.

18 $\frac{3}{8}$ %

Euro-\$ 3-months

18 $\frac{3}{8}$ %

=

I.B.Comparison

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

2.3372

\$/DM

2.3890

4.82 $\frac{1}{4}$

£/DM

4.64

11.43 $\frac{1}{4}$

£/FF

10.97

225.12

\$/Yen

225.90

\$473

Gold

\$463

2.0835

\$/S.Fc.

2.1190

4.30 $\frac{1}{8}$

£/S.Fc.

4.11 $\frac{1}{8}$