

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 17th June 1981

In much quieter and more stable markets interest rates set the pattern for the week. US rates started to move down from recent highs, following another decline in the US monetary aggregates, and the dollar weakened. This helped to take the pressure off sterling which came into some demand on commercial account and for short covering. The ERI rose 0.6 to 95.6.

Apart from very brief periods of nervousness on Thursday, when some sizeable selling was seen, and on Monday night in New York, following the announcement of the \$4½ per barrel cut in the price of BNOC's oil, sterling passed a very quiet week. After closing in New York on Wednesday night at 1.9650, sterling opened in London on Thursday at 1.9597 but soon encountered some professional selling from Switzerland and Germany. The rate fell quickly to 1.9425 before some recovery was seen. This period of pressure over, sterling started to move up gently and, helped by some modest commercial buying on Friday afternoon, it closed in London at 1.9575 before the weekend. With the dollar significantly weaker on Monday following Friday's money supply figures, sterling opened nearly two cents higher and, after some initial uncertainty, started to rise further. As the rate approached 2.00 there was evidence of short covering, particularly from New York where it rose to 2.0075. However, news of the reduction in BNOC's oil price later that evening caused a reaction and the rate dropped to 1.9780 shortly before the New York close. Concern over the announcement appeared to be short-lived and against a rather easier dollar, the rate recovered rapidly on Tuesday when some good buying interest was seen. Sterling rose to touch 2.0125 on Tuesday afternoon but as Fed Funds helped the dollar to firm again, the rate then settled to trade narrowly around 2.00, ending at 1.9995, 3½ cents up over the week. Sterling recovered some of last week's losses in Europe, rising by ⅝% to 4.68½ in Germany, ½% to 11.12½ in France but it lost ⅜% to 4.08½ in Switzerland. Against the ECU, sterling moved to a premium of ⅜% over its notional central rate. Three-month Euro-dollars were ¼% easier over the week, closing at 17%. With sterling's forward premium narrowing slightly to 4⅜% the covered differential moved to ¼% in favour of London.

All the economic indicators for May published during the week (retail sales, industrial production and housing starts) seemed to confirm signs of weakness in the US economy, while the money supply figures announced on Friday showed unexpectedly large declines (M1B -\$2.9bn.). Some prime rates were reduced by ½% to 19½%, with Chemical Bank alone going to 19%. Against this, however, Fed Funds remained obstinately tight in the 19-20% range and this limited the extent of the dollar's decline: it fell 1% against the deutschemark to close at 2.3430 after sales of \$44mn. by the Bundesbank. EMS closed only 1½% wide between the mark and the Belgian franc (38.23). Some weakness in the French franc (5.5645) in advance of the weekend was reversed after the election results were known and the Bank of France was able to buy \$79mn.-worth of deutschemarks. Outside EMS, the Swiss franc (2.0429) firmed further, to 0.87½ against the deutschemark, and the yen rose 2% to close at 220.42.

Gold again traded in a very narrow range. The first fixing was at \$464.25 and although the price rallied to \$472.25 on Monday as the dollar weakened, news that the US Congress was authorising large sales of stockpiled silver caused a reaction. The price ended at \$461.75, \$3 lower over the week.

17th June 1981.

TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

11th June

18th June

1.9440

£/\$

1.9860

94.4

Effective exchange rate index

95.5

5% p.a. pre.

Forward 3-months

15% p.a. pre.

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

Euro-\$ 3-months

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

1/16% disc.

I.B.Comparison

+ 1/16% pre.

2.3975

\$/DM

2.3615

4.66

£/DM

4.69

11.06

£/FF

11.16

225.65

\$/Yen

221.77

\$463

Gold

\$460

2.1095

\$/S.Fc.

2.0615

4.10

£/S.Fc.

4.09 $\frac{3}{8}$