

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 8th July 1981

The exchanges continued to be dominated by interest rates. The heavy pressure on sterling abated following a rise in sterling rates and the ERI recovered 0.4 to 93.5, after 92.1 on Thursday. Further rises in US rates and concerns over Poland took the dollar to new highs in most centres.

There was heavy turnover in sterling on most days during the week but by the end of the period the atmosphere was somewhat calmer and the pound had moved away from the centre of the stage. Sterling passed an uncomfortable night in New York on Wednesday, closing a cent lower at 1.8930 against an easier dollar. The rate opened on Thursday at 1.8935 but heavy selling was quickly resumed and in hectic business the rate fell, bottoming at 1.8755 (a new three-year low) early in the afternoon. Some commercial buying on Friday morning saw an improvement to 1.8990 but later, in a thin market, US sellers forced the pound to give up its earlier gains and it closed at 1.8935 in London. Following weekend press reports about the Government's intention to support the pound, sterling opened on Monday with a firmer tone and, as short positions, particularly against the continental currencies were covered, it moved up quickly to 1.9020. However, the appearance of a large seller then depressed the rate and, as rumours of Soviet troops gathering on the Polish border took the dollar to new highs in Europe, sterling fell back to 1.8775 in the early afternoon. Then, as the effect of steps to raise sterling interest rates filtered through to the market, sterling recovered to close that day at 1.8995. The firmer interest rates made for a rather more comfortable end to the week and the pound rose to 1.9195 on Tuesday afternoon before encountering a heavy onslaught from the IMM in Chicago. This safely passed, sterling moved a little to the sidelines and in a quieter market, with the dollar again firming sharply, sterling moved back to close at 1.8924. Part of last week's losses on the Continent were recouped: in Germany the pound gained $1\frac{1}{2}\%$ (4.66%), in Switzerland $\frac{3}{4}\%$ (3.98%) and in France $\frac{3}{4}\%$ (11.01%). Against the ECU sterling moved to a discount of $\frac{1}{2}\%$ on its notional central rate. Three-month Euro-dollars were slightly firmer over the week, closing at 17 15/16%. Sterling's forward premium narrowed to 4 13/16% and with three-month sterling interbank rates $\frac{3}{4}\%$ firmer, the covered differential remained slightly in favour of London.

US short-term interest rates continued very firm. Fed Funds remained close to 20% throughout the week and most major banks increase their prime rates by $\frac{1}{2}\%$ to 20 $\frac{1}{2}\%$. The dollar strengthened against all major currencies, closing a little below its best levels after some intervention by the Germans, who sold \$75mn. and the Japanese who sold \$77mn. The deutschemark fell a further 1% to 2.4639 (after a five-year low of 2.4730). EMS was fairly relaxed with the Belgian franc (40.28) closing 2% below the deutschemark after sales equivalent to \$170mn. The French franc (5.8185) improved within the arrangement enabling the Bank of France to buy deutschemarks worth \$150mn. Elsewhere, the Swiss franc (2.1057) firmed a little to 0.85 $\frac{1}{2}$ against the deutschemark and the yen tested the 230 level but closed at 228.97. Weaker oil prices caused some softness in the Norwegian crown and the central bank sold \$75mn. but the Swedes bought \$70mn.

Gold was an active but weak market. The first fixing was at \$410 but after the weekend, as the dollar moved to record levels, the price gave ground. It moved steadily lower, breaching \$400 on Wednesday when it fixed at \$397.75 in the afternoon, the lowest level for 18 months and a fall of \$24 over the week.

8th July 1981.

TRS

Jan

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>2nd July</u>		<u>9th July</u>
<u>1.8885</u>	£/\$	<u>1.8857</u>
<u>92.3</u>	Effective exchange rate index	<u>93.2</u>
<u>5¼% p.a. pre.</u>	Forward 3-months	<u>5¼% p.a. pre.</u>
<u>18½%</u>	Euro-\$ 3-months	<u>18 13/16%</u>
<u>1/16% disc.</u>	I.B. Comparison	<u>3/16% disc.</u>
<u>2.4145</u>	\$/DM	<u>2.4660</u>
<u>4.56</u>	£/DM	<u>4.65</u>
<u>10.84½%</u>	£/FF	<u>11.02½%</u>
<u>227.45</u>	\$/Yen	<u>229.15</u>
<u>\$409</u>	Gold	<u>\$405</u>
<u>2.0750</u>	\$/S.Fc.	<u>2.1070</u>
<u>3.91½%</u>	£/S.Fc.	<u>3.97½%</u>