

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 15th July 1981

The weekend of rioting in Britain contributed to another uncomfortable period for sterling. The ERI fell 1.1 to 92.4, after a new low of 91.7 at noon on Tuesday. An easing in US short-term interest rates caused the dollar to weaken in most other European centres.

Sterling was a nervous market throughout the week, subject to periodic bouts of heavy selling. During a difficult evening in New York on Wednesday sterling touched 1.8685 but recovered to close at 1.8835. The rate opened on Thursday at 1.8825, initially traded up as the dollar weakened generally but came under pressure from the US in the afternoon. However, rumours that evening in New York that the Fed's surcharge on large borrowers might be abolished or reduced weakened the dollar and sterling moved up to 1.9120 before relapsing to 1.90 by the close. In a much quieter market on Friday the rate again managed briefly to touch 1.90 but the higher levels attracted some selling from the US and it closed at 1.8965 in London before the weekend. With the dollar softer still on Monday, following another decline in money supply, sterling opened at 1.90 and rose to touch 1.9040 in the morning but, as news of the weekend of rioting in Britain was assimilated in New York, heavy commercial selling commenced in the late afternoon. The selling was continued by the IMM in New York that evening and by the Far Eastern markets the next morning, so that sterling had fallen to 1.8605 by the London opening on Tuesday. In active and nervous trading the rate fell further, to a new three-year low of 1.8555, during the morning but then recovered gradually in rather calmer conditions as the dollar eased generally. By the close sterling had improved to 1.8645 and the slightly firmer tone was continued on Wednesday, when, helped by the absence of any further unrest, sterling traded quietly around the 1.88 level ending at 1.8845. The pound lost considerable ground on the Continent falling by 2% against both the deutschemark (4.56%) and the Swiss franc (3.91) and by 1½% against the French franc (10.83%). Against the ECU sterling fell to a discount of 1¼% on the notional central rate. Three-month Euro-dollars were a touch easier at 17 13/16% but the forward premium fell to 4¾% and the covered differential remained slightly in favour of London.

Hopes of the long-awaited downturn in US interest rates were boosted this week by another decline in the money supply figures and a fall in the Fed Funds rate to below 17%. Some determined intervention by the Bundesbank, who sold \$200mn., also helped to restrain the dollar and the mark rose 2% to close at 2.4205. EMS widened out to 2¼% between the mark and the Belgian franc (39.70) with the National Bank selling \$100mn. in support. The French franc (5.7615), after some softness before the long Bastille holiday weekend, when the Bank of France sold \$125mn., improved on Wednesday closing only 1% below the deutschemark. Unusually, although the guilder (2.6970) seemed comfortable within the band, the Dutch sold dollars and DM amounting to \$150mn. The Italians bought \$250mn. Elsewhere, the effect of the large interest rate differential between the US and Japan was finally seen on the yen which fell 1% to 231.15, despite sales of \$180 by the Bank of Japan. The Swiss franc (2.0745) eased a little to close at 0.86 against the deutschemark.

Gold was a fairly active market. The price recovered a little of last week's losses encouraged by the easier dollar and the promise of lower US interest rates. From a level of \$406 at the first fixing the price rose to \$417.75 at the morning fixing on Monday but ended rather lower, at \$412.25, a rise of 14½% over the week.

15th July 1981.

TRS.

Jew

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>9th July</u>		<u>16th July</u>
<u>1.8857</u>	£/\$	<u>1.8802</u>
<u>93.2</u>	Effective exchange rate index	<u>92.1</u>
<u>5¼% p.a. pre.</u>	Forward 3-months	<u>4 11/16% p.a. pre.</u>
<u>18 13/16%</u>	Euro-\$ 3-months	<u>18 5/16%</u>
<u>3/16% disc.</u>	I.B.Comparison	<u>1/16% disc.</u>
<u>2.4660</u>	\$/DM	<u>2.4143</u>
<u>4.65</u>	£/DM	<u>4.54</u>
<u>11.02½</u>	£/FF	<u>10.78½</u>
<u>229.15</u>	\$/Yen	<u>231.05</u>
<u>\$405</u>	Gold	<u>\$415</u>
<u>2.1070</u>	\$/S.Fc.	<u>2.0765</u>
<u>3.97½</u>	£/S.Fc.	<u>3.90½</u>