

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 5th August 1981

In very active trading the dollar broke into new higher ground this week as markets became concerned about the implications for US interest rates of the successful passage of President Reagan's tax cut proposals. The dollar gained some 3% against most major currencies, despite heavy and concerted central bank intervention. Sterling fell back with the European currencies and the ERI shed 1.1 to close at a new low of 91.0.

Sterling was a good two-way market for much of the week but there were periods of softness, particularly when the dollar was pushed back from its highest levels; at such times sterling failed to improve as quickly against the dollar as the other European currencies. Sterling traded quietly throughout the Royal Wedding Bank Holiday, closing in New York that night at 1.8530. It opened in London on Thursday at 1.8462 and, after some initial hesitation, came into modest demand, reaching 1.8520 during the morning. The announcement of the ending of the civil service strike later that day also helped sterling and the rate rose in New York that evening to close at 1.8625. Although 1.8615 was paid for sterling early on Friday, thereafter in a quiet market it drifted lower and, as some selling emerged towards the end of the day, the rate fell to close below 1.84 before the weekend. On Monday, with the dollar very much firmer in Europe, sterling opened at 1.8262 and traded actively around this level. Some selling pressure again developed towards the end of the day and it closed at the low of 1.8105. The pattern was repeated on Tuesday, with heavy turnover in the morning followed by some pressure in the afternoon as short-term sterling interest rates eased, and in late business the pound fell to touch 1.7915, a four-year low. On Wednesday in a rather quieter market, with the dollar restrained by some European intervention, sterling recovered only a little to trade around 1.81 ending at 1.8040, 5½ cents lower over the week. As the dollar advanced, sterling held fairly steady on the Continent, closing ¼% lower in Germany (4.53%), unchanged in Switzerland (3.94%) but slightly firmer in France (10.81). Against the ECU sterling's discount on its notional central rate widened to 2½%. Three-month Euro-dollars were steady at 18¼% but sterling's forward premium widened to 4 11/16% and the covered differential moved to 5/16% in London's favour.

Markets ignored another set of subdued money supply figures, focussing instead on the tax cuts, and the dollar strengthened very sharply after the weekend. Concerted intervention, amounting in total to some \$2bn. by central banks, led by the Bundesbank, commenced on Tuesday but succeeded in bringing the dollar back only a little from its best levels. The deutschemark fell a further 2½% to close at 2.5145 (having touched 2.5398 in New York on 3rd August) after sales of \$1.1bn. In the EMS, the Belgian franc (41.18) closed 2½% below the mark after sales of \$225mn. The French franc fell to an all-time low of 6.03 but closed at 5.9925 after sales of \$110mn. The Danes sold \$100mn. and the Dutch \$60mn. The lira (1245.50) was relatively firm and moved outside the top of the band. Elsewhere, the Swiss sold \$220mn. and the franc fell to close at 2.1847. The yen was extremely volatile: it fell to 247.40 in Tokyo on 4th August but rallied to close at 241.22. The Bank of Japan sold \$290mn. over the week. The Canadian dollar continued under pressure and needed daily support amounting in total to \$500mn.

Gold was a quiet and rather weak market. The price fell through \$400 after the weekend as the dollar strengthened, to fix at a 20-month low of \$391.25 on Tuesday afternoon. The final fixing was at \$392.40, \$9 lower over the week.

5th August 1981.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>30th July 1981</u>		<u>6th August 1981</u>
<u>1.8520</u>	£/\$	<u>1.8045</u>
<u>92.2</u>	Effective exchange rate index	<u>90.8</u>
<u>4 7/16% p.a. pre.</u>	Forward 3-months	<u>4 7/8% p.a. pre.</u>
<u>19 1/16%</u>	Euro-\$ 3-months	<u>19 3/16%</u>
<u>1/16% disc.</u>	I.B. Comparison	<u>parity</u>
<u>2.4640</u>	\$/DM	<u>2.5093</u>
<u>4.56½</u>	£/DM	<u>4.52½</u>
<u>10.83</u>	£/FF	<u>10.80</u>
<u>238.90</u>	\$/Yen	<u>239.30</u>
<u>\$402</u>	Gold	<u>\$395</u>
<u>2.1345</u>	\$/S.Fc.	<u>2.1790</u>
<u>3.95½</u>	£/S.Fc.	<u>3.93½</u>