

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 19th August 1981

Political and economic factors diminished further the influence of interest rates on the exchanges in another week of active and nervous trading. Fears that Iran was diversifying its returned assets out of dollars, speculation about the outcome of the OPEC meeting and news that US fighters had shot down two Libyan planes were some of the factors affecting the dollar which overall strengthened a little. Hopes that North Sea oil prices would rise following an OPEC agreement gave sterling a firmer tone and the ERI rose 0.3 to 91.3

As the dollar strengthened in New York on Wednesday night, sterling shed two cents to close at 1.8070. After opening at 1.8077 in London the next day the pound initially came into some demand, moving up to 1.8145 by mid-morning before a firmer tone to the dollar caused it to fall back below 1.80. The dollar continued to strengthen into Friday, when sterling touched 1.7925 in early business but following a statement by the Saudis that OPEC would reach agreement on unified oil prices the rate improved to close at 1.8060 before the weekend. Although it opened $\frac{3}{4}\%$ of a cent lower on Monday, strong demand, particularly on oil company account contributed to an abrupt rise in sterling which touched 1.8320 shortly before the close that day. Tight domestic money conditions, together with a sharp weakening of the dollar, were additional causes of a further surge on Tuesday when sterling reached 1.8535 in mid-morning. However, the firmness of US short-term interest rates helped the dollar to recover much of its lost ground and the rate quickly relapsed to 1.82 $\frac{1}{2}$. The pattern was similar on Wednesday, when after trading up to 1.8435 in the morning sterling fell back to close at 1.83. The pound was firmer on the Continent gaining $\frac{1}{2}\%$ in Germany (4.56%) and 1 $\frac{3}{8}\%$ in both France (10.87%) and Switzerland (3.97%). Against the ECU sterling's discount on its notional central rate narrowed to 1 $\frac{1}{2}\%$. Three-month Euro-dollars firmed by $\frac{3}{4}\%$ during the week to close at 18 $\frac{1}{2}\%$. Sterling's forward premium widened to 4 13/16% and the covered differential moved to 1/16% in favour of London.

Although US interest rates remained resolutely firm, the dollar was extremely volatile. Fears that the Iranians were diversifying their returned US assets sparked off a strong run out of the dollar on Monday but it recovered after the Libyan news on Wednesday. Intervention by the Bundesbank was modest, they sold only \$60mn. and the deutschemark closed at 2.4965. Concerns about a possible weekend realignment caused pressure in the EMS but this later disappeared. The Irish punt (1.4640) replaced the Belgian franc (40.53) at the bottom of the band, 1 7/16% below the mark. The Irish sold \$125mn. and the Belgians \$300mn. equivalent. The French franc (5.9450) was weak at first but later improved and the Bank of France spent only \$150mn. net. The Italians bought \$165mn. Outside the EMS, the Swiss franc (2.1740) slipped to 0.87 $\frac{1}{2}$ against the mark. The yen failed to sustain last week's improvement and it closed a little weaker at 230.22. The Canadian dollar on the other hand, was rather firmer and the Bank of Canada bought \$400mn.

Gold was an active market. The rally which commenced last week faltered at first but was resumed on Tuesday as the dollar weakened and the price broke through an important chart point. The Libyan news fuelled demand and on Wednesday afternoon gold fixed at \$431.50, a rise of \$14 over the week.

19th August 1981.

TRS

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RATES, ETC.

10.15 a.m.

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<u>13th August 1981</u>		<u>20th August 1981</u>
<u>1.7965</u>	£/\$	<u>1.8565</u>
<u>90.3</u>	Effective exchange rate index	<u>92.1</u>
<u>4$\frac{3}{8}$% p.a. pre.</u>	Forward 3-months	<u>4$\frac{3}{8}$% p.a. pre.</u>
<u>18$\frac{1}{2}$%</u>	Euro-\$ 3-months	<u>18 13/16%</u>
<u>1/16% disc.</u>	I.B.Comparison	<u>1/16% disc.</u>
<u>2.5270</u>	\$/DM	<u>2.4735</u>
<u>4.54</u>	£/DM	<u>4.59$\frac{1}{2}$</u>
<u>10.89$\frac{5}{8}$</u>	£/FF	<u>10.95$\frac{1}{2}$</u>
<u>321.95</u>	\$/Yen	<u>229.32</u>
<u>\$406</u>	Gold	<u>\$432</u>
<u>2.1650</u>	\$/S.Fc.	<u>2.1532</u>
<u>3.88$\frac{7}{8}$</u>	£/S.Fc.	<u>3.99$\frac{1}{2}$</u>