

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 9th September 1981

Sterling has been under pressure for much of the week, due to the prospect of continuing softness in oil prices and the generally depressing outlook for the UK economy, together with the market's growing belief that the pound must yet suffer a substantial downward correction, especially against Continental currencies. The dollar was little changed overall and continues to lack a definite trend. Sterling's ERI fell from 90.8 to 87.7, another new low.

With the approach of the American Labor Day holiday on Monday, markets were fairly quiet before the weekend but the Chicago IMM were persistent sellers of dollars, particularly for the traditional hard currencies, and sterling was traded up to 1.8520 last Wednesday in New York. There was little activity on Thursday and Friday and the pound moved between 1.8436 and 1.8505. Late on Friday, however, sterling was heavily sold in the US and met further offerings, both professional and commercial, in Europe on Monday, falling sharply to 1.8172 at one stage. On Tuesday, Yamani's repeated forecast of lower oil prices sparked substantial and widespread selling of pounds, and the rate, which had started the day much lower at 1.8055, fell quickly to 1.7945, despite forceful official resistance. US operators again sold sterling later that day and it was traded down to 1.77 $\frac{1}{2}$ in the Far East early on Wednesday morning. The market remained uneasy throughout Wednesday, with sterling trading for the most part, around 1.7850 in Europe. A further wave of bear selling that afternoon took sterling back to 1.7767 and it finished the week uneasily at 1.7807. The pound suffered considerable losses against European currencies, losing 3 $\frac{1}{2}$ % to the deutschemark (4.32 $\frac{1}{2}$), 3 $\frac{1}{2}$ % to the French franc (10.36 $\frac{1}{2}$) and 5 $\frac{1}{2}$ % to a resurgent Swiss franc (3.73 $\frac{1}{2}$). Against the ECU sterling's discount on its notional central rate widened from 3% to over 6%. Three-month Euro-dollars were little changed at 18 5/16% while comparable sterling deposits were $\frac{1}{2}$ % easier. The forward premium was unchanged at 4 $\frac{1}{2}$ % p.a. and the adverse covered differential rose to around $\frac{1}{2}$ %.

With US producer prices rising by only 0.3% in August and unemployment in the US rising from 7% to 7.2%, the dollar tended easier on the prospect of lower interest rates only to recover when domestic markets continued sour. The Swiss franc was substantially better following Leutwiler's promise of tighter liquidity. It gained 2 $\frac{1}{2}$ % to 2.0982 and advanced from 0.88 $\frac{1}{2}$ to 0.86 $\frac{1}{2}$ against the deutschemark. The latter was better by $\frac{1}{2}$ % at 2.4295 after sales by the Bundesbank of nearly \$100mn. EMS met familiar pressure before the weekend and, though somewhat more relaxed, was still over 2% in width thereafter closing at 2 3/16% between the deutschemark and Belgian franc (39.82). The Belgians sold deutschemarks worth \$150mn. and \$40mn., the French sold \$375mn. of exchange, much of it in deutschemarks and the Irish sold \$80mn., including some sterling. The Danes, however, took in \$60mn. and the Italians \$50mn. The Japanese yen remained relatively soft, falling 1 $\frac{1}{2}$ % to 232.55. The Canadian dollar suffered some reversal and the authorities spent over \$200mn.

The undertone for gold remained generally firm. The metal was bid up to \$445 in the Far East on Friday but thereafter retreated before a stronger dollar and has since consolidated around a closing level of \$436.75, \$6.75 higher than last week.

10th September 1981.

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>3rd September 1981</u>		<u>10th September 1981</u>
<u>1.8487</u>	<u>£/\$</u>	<u>1.7897</u>
<u>90.8</u>	<u>Effective exchange rate index</u>	<u>87.8</u>
<u>4 13/16% p.a.</u>	<u>Forward 3-months</u>	<u>4 3/8% p.a.</u>
<u>18 11/16%</u>	<u>Euro-\$ 3-months</u>	<u>18 7/16%</u>
<u>-</u>	<u>I.B.Comparison</u>	<u>5/16% disc.</u>
<u>2.4208</u>	<u>\$/DM</u>	<u>2.4126</u>
<u>4.47 1/2</u>	<u>£/DM</u>	<u>4.31 1/2</u>
<u>10.74 1/2</u>	<u>£/FF</u>	<u>10.35</u>
<u>229.50</u>	<u>\$/Yen</u>	<u>232.15</u>
<u>\$436.50</u>	<u>Gold</u>	<u>\$449.50</u>
<u>2.1242</u>	<u>\$/S.Fc.</u>	<u>2.0750</u>
<u>3.92 1/2</u>	<u>£/S.Fc.</u>	<u>3.71 1/2</u>