

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 16th September 1981

The exchange markets were active and nervous with substantial movements of funds out of both the dollar and sterling. The pressure on sterling, which abated after the rise in interest rates, again resulted from the feeling that the currency was vulnerable given the softness of oil prices and the general weakness of the economy. The dollar was widely sold as US interest rates seemed, at least temporarily, to be on a downward path. Sterling's ERI rose 0.9 to 88.6, after 86.6 at noon on Monday.

Heavy turnover in sterling was seen on a number of days, with widespread selling early in the week followed by hasty short-covering and good commercial demand in the last two days. In New York on Wednesday the pound rose against a weakening dollar to close at 1.7935. After opening on Thursday at 1.7907 the rate moved up through 1.80 during the afternoon as the dollar retreated in the face of IMM selling. However, their attention switched to sterling on Friday and the rate fell back to close nervously at 1.7885 before the weekend. Heavy professional selling from Europe kept up the pressure on the pound on Monday when, despite official support, the rate fell steadily from 1.7907 to a low of 1.7671 by early afternoon. With US operators intent on selling the dollar, rather than sterling, a nervous recovery then commenced which was fuelled by news that the Bank had lent to the discount market at 13½%. By the close sterling was up to 1.7947 and although there was some hesitation at first on Tuesday, higher sterling inter-bank rates encouraged further short-covering. With New York continuing to put pressure on the dollar sterling started to move up quickly reaching 1.8340 before the close that afternoon. The upward movement was continued on Wednesday when, following the increase to 14% in the Clearing Banks' Base Rates, sterling rose to 1.8495 in mid-morning before closing at 1.8445. Despite its recovery against the dollar, the pound lost further ground on the Continent. It shed 1% in both Germany to 4.27½ (after 4.18½ on Monday), and France to 10.27½ and 1½% in Switzerland to 3.66½. Against the ECU sterling's discount on its notional central widened to 7½%. Three-month Euro-dollars were 1% easier at 17 3/16% and sterling inter-bank rates rose by a similar amount. Accordingly, the forward premium narrowed to 2 11/16% and a small intrinsic premium for sterling emerged.

Lower US interest rates (Fed Funds at 16% and primes down ½% to 20%) caused the dollar to weaken sharply over the week. The deutschemark rose almost 5% to close at 2.3177. The strength of the mark and the guilder (2.5645), despite purchases of \$130mn. by the Dutch, caused some polarisation in the EMS where three of the other four currencies in the 2½% band were close to their intervention points. The Belgian franc (37.95) finished bottom after support of \$210mn. equivalent, while the French spent \$820mn. in defence of the franc (5.5725) and the Irish \$60mn. to protect the punt (1.5732). In addition the Danes sold \$130mn. Elsewhere, tight short-term interest rates caused the Swiss franc (1.9890) to firm further and it closed at 0.85½ against the DM. The yen failed to keep pace with the improvement in the other currencies, rising only 2½% to 226.90. Following the 10% devaluation on Monday the Swedish crown moved to the top of its new trading band, enabling the Riksbank to recoup some \$610mn.

Gold was a fairly steady market with the price trading narrowly around the \$450 level. After a rally in New York on Wednesday night the first fixing was at \$448 and although the price later rose through \$450 it failed to breach \$460. The final fixing was at \$449, \$12 higher over the week.

16th September 1981.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>10th September 1981</u>		<u>17th September 1981</u>
<u>1,7897</u>	£/\$	<u>1.8520</u>
<u>87.8</u>	Effective exchange rate index	<u>88.4</u>
<u>4$\frac{3}{8}$% p.a.</u>	Forward 3-months	<u>2$\frac{3}{8}$% p.a. disc.</u>
<u>18 7/16%</u>	Euro-\$ 3-months	<u>17$\frac{5}{8}$%</u>
<u>5/16% disc.</u>	I.B.Comparison	<u>$\frac{1}{8}$% disc.</u>
<u>2.4126</u>	\$/DM	<u>2.2935</u>
<u>4.31$\frac{1}{2}$</u>	£/DM	<u>4.24$\frac{1}{2}$</u>
<u>10.35</u>	£/FF	<u>10.20$\frac{1}{2}$</u>
<u>232.15</u>	\$/Yen	<u>226.32</u>
<u>\$449.50</u>	Gold	<u>\$456</u>
<u>2.0750</u>	\$/S.Fc.	<u>1.9690</u>
<u>3.71$\frac{1}{2}$</u>	£/S.Fc.	<u>3.64$\frac{1}{2}$</u>