

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 30th September 1981

The loss of confidence in world stock and bond markets contributed to another nervous and erratic week on the exchanges. The markets' negative response to President Reagan's further round of budget cuts caused US long-term rates to rise again and the dollar strengthened. Sterling came under heavy pressure at times but a further rise in UK interest rates improved the tone at the end of the week. The ERI rose 0.6 to 87.4 after a new low of 85.7 on Thursday.

Sterling was an active two-way market for much of the week but heavy professional selling was seen either side of the weekend when considerable official support was provided. Persistent selling in New York on Wednesday night drove sterling down to 1.8025 by the close there. The rate opened in London on Thursday against a firmer dollar at 1.7967 but quickly encountered the regular professional selling seen from Switzerland. The pressure grew on Thursday and Friday as other Continental and Middle Eastern operators also sought to reduce their holdings of sterling but good demand from oil companies and some overseas official interest was evident at the lower levels. Wall Street's reaction to President Reagan's television address caused the dollar to strengthen sharply in late trading on Friday and although sterling held firm on the Continent it gave ground against the dollar, closing at 1.7730 in New York. With Far Eastern demand carrying the dollar higher on Monday, sterling opened half a cent lower and fell to 1.7645 during the morning. Some official support brought a temporary improvement to the 1.79 level but when US operators also sold sterling heavily the rate again fell back below 1.78 before a modest bear squeeze carried the rate back above 1.79. Calmer conditions prevailed on Tuesday and Wednesday when dealers, concerned about the introduction of same-day settlement in New York and the end of the quarter, were reluctant to over-extend themselves. Sterling generally traded much more comfortably but, helped by a further rise in sterling inter-bank rates it began to strengthen on Wednesday as short positions were closed, ending the period at 1.8105, having earlier touched 1.8235. Sterling was firmer on the Continent, rising $\frac{1}{2}\%$ against the deutschemark (4.19 $\frac{1}{2}$), $1\frac{1}{2}\%$ against the French franc (10.06 $\frac{1}{2}$) and $\frac{3}{4}\%$ against the Swiss franc (3.56 $\frac{1}{2}$). Against the ECU sterling's discount on its notional central rate fell to 9%. After technical adjustment three-month Euro-dollars were $1\frac{1}{2}\%$ firmer over the week at 17 $\frac{1}{2}\%$. With sterling inter-bank rates rising by a further $1\frac{1}{2}\%$ over the week the forward premium narrowed to 1% and the covered differential was $\frac{1}{2}\%$ against London.

The demoralisation of the US bond markets, where record yields were posted, caused long-term rates to rise sharply and the dollar firmed in all centres after the weekend. However, short rates remained relatively soft as Federal Funds traded mostly below 15% and one bank reduced its prime $\frac{1}{2}\%$ to 19%. The dollar gained $1\frac{1}{2}\%$ over the week but ended below its best levels at DM 2.3190, the Bundesbank having sold \$50mn. Although it was fully stretched by the close, there was again no pressure in EMS where the Belgian franc (38.05) required only minimal support. The French sold \$150mn. before the weekend to protect their franc (5.5585), the Irish sold \$110mn. and the Dutch \$70mn. Elsewhere, the Swiss franc (1.9705), helped by end-quarter pressures strengthened further to 0.85 against the mark. The yen, however, remained soft falling 2% to close at 232.20.

Gold was an active and rather nervous market. The price remained around the \$450 level before the weekend but fell sharply as stock and bond markets collapsed on Monday, bottoming around \$420. A cautious recovery then commenced and the price ended at \$428.75, \$28 lower over the week.

1st October 1981.

TRS

TES, ETC.

10.15 a.m.

10.15 a.m.

24th September 1981

30th September 1981

1.7930

£/\$

1.8130

86.3

Effective exchange rate index

87.6

1½% p.a. disc.

Forward 3-months

1 1/16% p.a. disc.

17½%

Euro-\$ 3-months

17½%

½% disc.

I.B.Comparison

1/16% pre.

2.3265

\$/DM

2.3240

4.17½

£/DM

4.21½

9.94

£/FF

10.10½

228.62

\$/Yen

233.57

\$450

Gold

\$433

1.9817

\$/S.Fc.

1.9740

3.55½

£/S.Fc.

3.57½