

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 14th October 1981

Although there was little movement in rates taking the week as a whole, it was another eventful and active period on the exchanges. Expectations of a gradual progression to lower US interest rates were shattered on Monday by Henry Kaufman who predicted a return within a matter of months to record levels and the dollar recovered all of its earlier losses. Sterling was a good two-way market but the tone remained distinctly nervous; the ERI fell 0.2 to 88.2.

There was heavy turnover in sterling on most days with US buyers particularly prominent. The pound was generally firmer in the first half of the week when sterling interest rates were relatively steady against falling dollar rates, but looked more vulnerable after the weekend as the Conservative Party Conference opened and dollar rates moved back up. From a closing level of 1.8815 in New York on Wednesday sterling eased back to open at 1.8727 in London the next day. Although some early pressure was seen, the cut in German interest rates, reports of a large North Sea oil discovery and falling Euro-dollar rates sparked off some good demand, and the pound moved up steadily reaching 1.8992 that afternoon. The buying continued in New York and again in London next day, when some Middle Eastern demand was seen, and the rate rose quickly to reach 1.9187. The higher levels, however, attracted commercial selling on a heavy scale and much of the gains were lost, the rate falling to close at 1.9005 before the weekend. With the dollar weaker on Monday following the cut in the discount rate surcharge and the fall in the US money supply, sterling initially tried to rise but again soon gave ground under the weight of commercial selling. Kaufman's remarks on the likely short-term nature of the decline in US interest rates contributed to a sharp recovery in the dollar on Tuesday and with growing expectations of a fall in the clearing banks' base rates, sterling came under heavy selling pressure from the outset. From an opening level of 1.8657 the rate fell quickly to 1.8485 before recovering to 1.8630 that evening. In a much calmer market on Wednesday sterling weathered the $\frac{1}{2}\%$ fall in base rates with equanimity and traded narrowly against the dollar, touching 1.8460 before closing at 1.8575. Sterling lost a little ground on the Continent weakening by $\frac{3}{8}\%$ in Germany (4.12 $\frac{3}{8}$), by $\frac{1}{2}\%$ in France (10.35 $\frac{3}{8}$) and by 1 $\frac{3}{8}\%$ in Switzerland (3.44 $\frac{3}{8}$). Against the ECU sterling's premium over its notional central rate declined to 1 $\frac{3}{8}\%$. Three-month Euro-dollar rates rose $\frac{1}{4}\%$ over the week to close at 16 $\frac{1}{2}\%$. With a forward premium for sterling of 9/16%, there was a covered differential in favour of London of 1/16%.

Although prime rates fell by 1% to 18% and the Fed again reduced the surcharge on the discount rate, the fall in US interest rates came to an abrupt halt after the weekend following remarks by Henry Kaufman that they would in due course return to record levels. The dollar, which had earlier been weakening sharply, recovered all its losses and ended the week little changed against the deutschemark at 2.2190. The mark remained bottom of the EMS, 1 15/16% below the French franc (5.5740), the Bundesbank selling \$110mn. and French francs worth \$50mn. The Bank of France bought \$170mn. and marks worth \$320mn. Elsewhere, the Swiss franc (1.8570) was very firm, improving to 0.83% against the deutschemark and the National Bank bought \$80mn. The yen was very steady closing at 228.42. The Swedes took the opportunity of the general decline in interest rates to reduce their discount rate by 1%.

Gold was rather quiet and the price moved in an unusually narrow range, between \$440 and \$455. The final fixing was at \$444.25, \$1 lower over the week.

14th October 1981.

TRIS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
8th October 1981.		15th October 1981
1.8710	£/\$	1.8640
89.2	Effective exchange rate index	88.2
3/16% p.a. disc.	Forward 3-months	7/16% p.a. disc.
16 $\frac{1}{2}$ %	Euro-\$ 3-months	16 1/16% pre.
1/16% pre.	I.B. Comparison	2.2057
2.2342	\$/DM	4.11 $\frac{1}{2}$
4.18	£/DM	10.32 $\frac{1}{2}$
10.49 $\frac{1}{2}$	£/FF	228.70
230.20	\$/Yen	\$448
\$440	Gold	1.8465
1.8932	\$/S.Fc.	3.44 $\frac{1}{2}$
3.54 $\frac{1}{2}$	£/S.Fc.	