

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 28th October 1981

It was another active week on the exchanges, with increased tension in Poland and the budgetary problems of the US and Germany the main factors in the market. Although there continued to be evidence of weakness in the US economy, the dollar strengthened in most centres. Sterling traded comfortably, remaining particularly firm on the Continent. The ERI rose 0.6 to 88.2.

Sterling was a good two-way market throughout the week, with the rate trading in an unusually narrow range. Much of the selling seemed to come from professional operators but they were generally outweighed by commercial and official buyers. An increase in the clearing banks' base rates seemed probable at times, following a sharp rise in sterling inter-bank rates, while there were expectations too that the forthcoming OPEC meeting might lead to higher North Sea oil prices. Sterling closed in New York on Wednesday at 1.8150 and opened in London at 1.8177. As the dollar weakened, helped by some heavy intervention by the Bundesbank and by further signs of weakness in the US economy, sterling rose to 1.8292 in New York on Thursday night and opened only 20 points lower in London the next day. However, the increase in US inflation, as measured by the consumer price index, helped to arrest the dollar's decline and sterling closed at 1.8225 before the weekend. The increase in tension in Poland following the announcement that troops would be used to curb unrest, together with disappointment in the US domestic market at the modest declines in the monetary aggregates, made for a much stronger dollar on Monday. From an opening level of 1.8170, sterling fell to 1.7987 in the early afternoon but good commercial demand appeared at the lower levels and the rate recovered to 1.8060 that evening. Further commercial and official demand was evident on Tuesday and Wednesday when sterling established a narrow trading range between 1.80½ and 1.82, where the rate closed. The pound was stronger in some places on the Continent, gaining 1% against the deutschemark (4.16%) and the French franc (10.46%) but it was unchanged against a very firm Swiss franc (3.44). Against the ECU sterling's premium over its notional central rate rose to 2¼%. Three-month Euro-dollars were ¼% lower over the week at 16¼% but the rise in sterling inter-bank rates led to the emergence of a forward discount for sterling of ¼% and the covered differential in favour of London narrowed to 3/16%.

The dollar weakened a little during the first part of the week as further indicators confirmed signs of weakness in the US economy. However, markets gave more weight to the sharp increase in inflation and there was some disappointment at the modest declines in money supply. Although the Bundesbank was very active in defence of the mark, selling \$760mn., the mark nevertheless lost 1%, closing at 2.29. The deutschemark remained at the bottom of EMS, 2% below the French franc (5.7475) which alternated top position with the Danish crown. The French bought \$150mn. and deutschemarks worth \$230mn. The Italians bought \$200mn. Elsewhere, the Swiss franc (1.8905) was firm as expectations grew that the inflation rate would shortly show a sharp decline; it moved to 0.82½ against the mark, despite purchases of \$150mn. and deutschemarks worth \$43mn. by the National Bank. For the first time for over two months the Japanese intervened to support the yen, selling \$78mn.; it closed ¼% lower at 234. The Swedes sold \$100mn.

Gold was a quiet market and the price moved in a narrow range around \$430. The final fixing was at \$430.80, \$1.80 higher over the week.

28th October 1981.  
TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>22nd October 1981</u>		<u>29th October 1981</u>
<u>1.8240</u>	£/\$	<u>1.8165</u>
<u>87.9</u>	Effective exchange rate index	<u>88.3</u>
<u>¼% p.a. disc.</u>	Forward 3-months	<u>3/16% p.a. pre.</u>
<u>16 7/16%</u>	Euro-\$ 3-months	<u>16¼%</u>
<u>¼% pre.</u>	I.B.Comparison	<u>interest parity</u>
<u>2.2635</u>	\$/DM	<u>2.2963</u>
<u>4.12½</u>	£/DM	<u>4.17½</u>
<u>10.36</u>	£/FF	<u>10.46½</u>
<u>233.90</u>	\$/Yen	<u>235.40</u>
<u>\$434.50</u>	Gold	<u>\$422</u>
<u>1.8900</u>	\$/S.Fc.	<u>1.8957</u>
<u>3.44½</u>	£/S.Fc.	<u>3.44½</u>