FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 4th November 1981

A sharp fall in US interest rates, fuelled by a 1% cut in the Fed's discount rate and by a significant change of views on the part of Henry Kaufman, who predicted lower rates, set the pattern for the week on the exchanges. The dollar weakened against all major currencies. Sterling was a good two-way market but British Leyland cast a shadow for much of the week. The ERI rose 0.6 to 88.8.

The rapid decline in US interest rates and the agreement at the OPEC pricing meeting gave sterling a firmer tone throughout the week but there was inevitably apprehension about developments at British Leyland until the results of the strike vote came through on Tuesday. Although there was good buying at various times and some closing out of short sterling positions, turnover was probably not on the scale of recent weeks. Sterling ended a quiet evening in New York on Wednesday at 1.8230 and opened in London on Thursday at 1.8215. Although the rate fell back to 1.8150 in early business on some professional selling, good commercial and Middle East buying soon appeared and with expectations of higher North Sea oil prices as a result of the OPEC meeting, sterling started to move up steadily. Following the publication of the very sharp fall in the index of US leading indicators, the dollar weakened and sterling rose to 1.84. Although the dollar was softer still on Friday, as the strong rally in US bond markets continued, sterling made little further progress, as market concerns about British Leyland grew. However, late in the day, news that the Saudis were to cut oil production by 1mn. barrels a day put new heart into the pound and the rate improved to 1.8517 at the close. Following the Fed's 1% cut in the discount rate on Friday night the dollar was marked down sharply on Monday and sterling traded up to 1.8965 in the Far East, before opening in London at 1.8877. Selling, both professional and commercial, was immediately encountered and, with the Leyland strike having commenced, the rate eased back throughout the day. Early on Tuesday, as it appeared at first that the vote at Leyland might go against acceptance of the pay offer, the pound was marked back to 1.8560 but news that the major factories were voting in favour prompted a recovery and it returned above 1.87. With the dollar easing further on Wednesday as US bond yields continued to decline, sterling moved a little higher to trade in the 1.87½-1.88 range but failed to keep pace with improvements in the Continental currencies. The rate ended the period at 1.8770. The pound was weaker in Europe, losing ½% in Germany (4.14⅞), ¼% in France (10.44⅛) and 2½% against the very strong Swiss franc (3.34⅞). Against the ECU sterling's premium on its notional central rate moved to 2¼%. Three-month Euro-dollars fell by over 1¼% during the week to 15%. Sterling's forward discount widened to ½% and the covered differential was a little wider at 5/16% in favour of London.

The 1% cut in the Fed's discount rate on Friday night confirmed beliefs which had been growing in the US bond markets that the marked weakness in the US economy would quickly lead to significantly lower interest rates. Major banks reduced their prime rates by ½% to 17½% and the dollar fell back against all currencies. It lost 3½% to the DM (2.2105) after sales of $30mn. by the Bundesbank. EMS was under little pressure: the mark remained at the bottom, 2% below the Danish crown (7.0987) which alternated top position with the French franc (5.5630). The Bank of France sold $60mn. Elsewhere, the Swiss franc continued in strong demand and was in the vanguard of currencies appreciating against the dollar. It closed at 1.7845 (DM 0.80¾) despite purchases of $70mn. and DM-worth $100mn. by the National Bank. The yen, too, had a much firmer tone than for many weeks past and rose to 227.10. The Canadian dollar was strong and the Bank of Canada bought $325mn.

Gold remained a dull market and the price again traded in a narrow range. The final fixing was at $431.25, 45 cents higher over the week.

4th November 1981.

TRS

RATES, ETC.

10.15 a.m.		10.15 a.m.
29th October 1981		5th November 1981
1.8165	£/\$	1.8790
88.3	Effective exchange rate index	89.0
3/16% p.a. disc.	Forward 3-months	⅝% p.a. disc.
16¼%	Euro-\$ 3-months	14 13/16%
interest parity	I.B.Comparison	5/16% pre.
2.2963	\$/DM	2.2135
4.17⅛	£/DM	4.15⅞
10.46⅝	£/FF	10.48¼
235.40	\$/Yen	227.47
\$422	Gold	\$430
1.8957	\$/S.Fc.	1.7862
3.44⅜	£/S.Fc.	3.35⅝