

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 11th November 1981

The exchanges were generally quieter this week. As further indicators confirmed signs of weakness in the US economy, the decline in US interest rates continued but the dollar overall was little changed. Sterling traded fairly comfortably and survived the cut in base rates without embarrassment. The ERI rose 0.4 to 89.2.

The continued fall in US interest rates enabled sterling rates to ease steadily over the week and the clearing banks reduced their base rates on Monday by $\frac{1}{2}\%$ to 15%. Sterling traded in a relatively narrow range during the week and turnover was again probably not as heavy as in some recent periods. After closing at 1.8725 in New York on Wednesday night sterling opened in London on Thursday at 1.8732 and traded quietly around the $1.87\frac{1}{2}-\frac{3}{4}$ level for most of the period before the weekend. Although the rate succeeded on a number of occasions in breaching 1.88, it failed to hold any level above there and closed against a generally firmer dollar at 1.8760 on Friday night. Following the sharp fall in the US money supply figures announced late on Friday, the dollar was much weaker on Monday and from an opening level of 1.8917, sterling rose to touch 1.8980 in mid-morning. However, the dollar temporarily regained much of its losses on Tuesday as concerns grew about the size of the US budget deficit for 1982. Having again traded around the 1.88 level for most of the day, sterling fell back to 1.8660 in late business in London and to 1.8642 in New York that evening. With the dollar weaker again on Wednesday, sterling returned to the 1.88 level ending the period quietly at 1.8840. The pound was a little firmer on the Continent, gaining $\frac{3}{8}\%$ in Germany (4.16%) and $\frac{1}{4}\%$ in France (10.52%) but was unchanged in Switzerland (3.34%). Against the ECU sterling's premium on its notional central rate rose to $2\frac{3}{8}\%$. Three-month Euro-dollars fell by a further 1% during the week, to 14%, their lowest level for 12 months, while sterling interbank rates fell by $\frac{1}{4}\%$. Sterling's forward discount widened to 13/16% and the intrinsic premium was unchanged at 5/16%.

Further evidence that the US economy was moving into recession, in the form of a $\frac{1}{2}\%$ rise in unemployment, to 8%, together with an unexpectedly large drop in the money supply (M1B -\$3.3bn.) sustained the rally in the US domestic markets where yields continued to fall sharply. Although the dollar did weaken on Monday, when the deutschemark touched 2.18 $\frac{1}{2}$, it recovered quickly helped by good commercial demand. Over the week as a whole the deutschemark was unchanged at 2.2117 after purchases of \$180mn. by the Bundesbank. EMS narrowed to 1 11/16%, with the Danish crown (7.1377) establishing itself firmly at the top and the mark remaining at the bottom. The French franc (5.5862) fell $\frac{1}{4}\%$ below the Danish crown after sales of \$45mn. The Italians sold \$300mn. and the Dutch bought \$270mn. and deutschemarks worth \$160mn. Elsewhere, the Swiss franc (1.7750) continued firm and improved to 0.80 $\frac{1}{2}$ against the mark after purchases of \$50mn. by the National Bank. By contrast, the yen (227.50) weakened as rumours circulated that some European countries were contemplating imposing import controls on Japanese goods. The Swedish crown also remained soft and required daily support, totalling \$140mn. The Canadian dollar continued relatively firm and the Bank of Canada bought \$100mn.

Gold was a weak market. The failure of the price to respond to the decline in US interest rates was aggravated by the weakness of silver and some holders liquidated positions. The final fixing was at \$412, \$19 lower over the week.

11th November 1981.

TRS

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>5th November 1981</u>		<u>12th November 1981</u>
<u>1.8790</u>	£/\$	<u>1.8845</u>
<u>89.0</u>	Effective exchange rate index	<u>89.2</u>
<u>$\frac{1}{8}\%$ p.a. disc.</u>	Forward 3-months	<u>15/16% p.a. disc.</u>
<u>14 13/16%</u>	Euro-\$ 3-months	<u>13$\frac{1}{8}\%$</u>
<u>5/16% pre.</u>	I.B.Comparison	<u>$\frac{1}{4}\%$ pre.</u>
<u>2.2135</u>	\$/DM	<u>2.2080</u>
<u>4.15$\frac{1}{8}$</u>	£/DM	<u>4.16$\frac{1}{8}$</u>
<u>10.48$\frac{1}{4}$</u>	£/FF	<u>10.50$\frac{1}{4}$</u>
<u>227.47</u>	\$/Yen	<u>227.22</u>
<u>\$430</u>	Gold	<u>\$412</u>
<u>1.7862</u>	\$/S.Fc.	<u>1.7680</u>
<u>3.35$\frac{1}{8}$</u>	£/S.Fc.	<u>3.33$\frac{1}{4}$</u>