

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 16th December 1981

Exchange markets became noticeably thinner this week as some banks ceased trading until the New Year. Nevertheless, turnover was substantial at times as political developments in Poland combined with interest rate changes to produce a much firmer dollar. Sterling was heavily sold on some days but recovered towards the end of the week. The ERI fell 1.1 to 90.2 after 89.6 on Monday.

The weakness of the US bond market caused eurodollar rates to rise sharply at the beginning of the week, narrowing the differential between UK and US interest rates. At the same time the OPEC meeting agreed to reduce oil prices again and industrial trouble seemed to be looming in Britain both at Fords and in the mines. Sterling lost a cent in New York on Wednesday night, closing there at 1.9142 and the opening rate in London on Thursday of 1.9163 was the high for the week. Professional selling, particularly from Switzerland, was seen from the outset and as commercial operators also sought to reduce their exposure to sterling the rate started to give ground. The selling pressure intensified on Friday, with the entry of official sellers, as eurodollar rates moved even higher following another weak performance by the New York bond market and the rate moved back to 1.8740 before turning with the help of some official support. Developments in Poland over the weekend made for a much firmer dollar on Monday but from an opening level of 1.8535 sterling quickly moved up above 1.87 before establishing a trading range around 1.86. With eurodollar rates falling after the weekend and as markets became more acclimatised to the change of circumstances in Poland the dollar eased back from its highest levels and sterling came into modest commercial and official demand, recovering to end at 1.8915, 3 cents lower over the week. Although the pound lost ground on the Continent as well, closing $\frac{3}{8}\%$ easier in Germany and France at 4.29% and 10.88% respectively and 2% lower in Switzerland (3.45%), it was nevertheless above its weakest levels. Against the ECU sterling's premium on its notional central rate fell to 5%. Having touched 14 $\frac{1}{2}\%$ on Monday, three-month eurodollars ended the week only 3/16% firmer at 12 $\frac{1}{4}\%$. Sterling's forward discount narrowed to 2 $\frac{1}{8}\%$ and with sterling interbank rates $\frac{1}{4}\%$ firmer, the covered differential widened to 7/16% in favour of London.

The declaration of martial law in Poland, coupled with a temporary upturn in US interest rates, caused the dollar to firm in most centres. The Bundesbank provided some support for the deutschemark, selling \$170mn., but the mark (2.2717) returned to bottom place in the EMS. The Belgians were under heavy pressure in the early part of the week, selling the equivalent of \$450mn., but following a 2% increase in discount rate, to 15%, the National Bank engineered a sharp bear squeeze which helped the franc (37.87) to move close to the top of the arrangement. The Danish crown (7.3487) remained in top place, with the French franc (5.7535) and the florin (2.4812) also in close attendance. The Dutch bought \$170mn. and the Italians \$140mn. Outside EMS the Swiss franc (1.8255) was rather firmer at 0.80% against the deutschemark. The Japanese cut their discount rate by $\frac{1}{4}\%$ to 5 $\frac{1}{2}\%$ and the yen (217.82) ended the week a touch firmer after \$310mn. of support by the Bank of Japan. The Norwegian crown was firm and the Norges Bank bought \$130mn.

Gold remained an active market. Following the Polish news the price leapt to touch \$430 in Hong Kong on Monday but later eased back to \$416.75, \$6.50 higher over the week.

16th December 1981

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>10th December 1981</u>		<u>17th December 1981</u>
<u>1.9040</u>	£/\$	<u>1.8937</u>
<u>90.6</u>	Effective exchange rate index	<u>90.5</u>
<u>2% p.a. disc.</u>	Forward 3-months	<u>2 1/16% p.a. disc.</u>
<u>13 1/8%</u>	Euro-\$ 3-months	<u>13 3/16%</u>
<u>1/8% pre.</u>	I.B.Comparison	<u>1/8% pre.</u>
<u>2.2477</u>	\$/DM	<u>2.2742</u>
<u>4.28</u>	£/DM	<u>4.30 3/8</u>
<u>10.84</u>	£/FF	<u>10.89 1/4</u>
<u>218.75</u>	\$/Yen	<u>218.17</u>
<u>\$407</u>	Gold	<u>\$418</u>
<u>1.85</u>	\$/S.Fc.	<u>1.8240</u>
<u>3.52 1/4</u>	£/S.Fc.	<u>3.45 3/8</u>