

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 23rd December 1981

Markets continued thin as the holiday and end-year approached. Events in Poland and seasonal tightness in US interest rates underpinned the dollar. Sterling was more comfortable than of late and enjoyed some modest recovery towards the end of the period. The ERI rose from 90.2 to 90.7.

Sterling began on Thursday at 1.8922 and advanced to 1.8972 on modest demand from Eastern sources. That afternoon, however a number of substantial sellers brought the rate back to 1.8852. Commercial selling was in evidence again on Friday and the pound traded down to 1.8685 before establishing a level around 1.87. Later, however, indications of a large decline in US GNP in the fourth quarter caused the dollar to soften and sterling recovered to close in New York at 1.8870. Further commercial offerings on Monday morning saw the pound moving narrowly around 1.88 but, with sterling deposit rates sharply firmer, this level was maintained. Some useful buying interest was noted on Tuesday, the pound regaining some half a cent. The better tone continued on Wednesday and further small buying orders carried sterling to 1.8957 before finishing the week at 1.8922. The pound regained $\frac{1}{2}\%$ in Germany (4.31 $\frac{1}{2}\%$) and $\frac{1}{4}\%$ in France (10.90 $\frac{1}{4}\%$) but shed $\frac{3}{8}\%$ in Switzerland (3.43 $\frac{3}{8}\%$). Against the ECU sterling's premium on its notional central rate rose to 5 $\frac{1}{2}\%$. Three-month Euro-dollars hardened by 1 $\frac{5}{16}\%$ as end-year pressures forced the rate up to 14 $\frac{3}{16}\%$. The forward discount narrowed to 1 $\frac{9}{16}\%$ p.a., sterling deposits firming by $\frac{9}{16}\%$ to 5 $\frac{15}{16}\%$, and the intrinsic premium was reduced to $\frac{3}{16}\%$.

A large official conversion of deutschemarks into dollars kept the dollar firm throughout Friday but after the weekend persistent demand for deutschemarks brought a slightly softer tone, despite the sharp firming in Euro-dollars which followed disappointing monetary statistics and a surprising increase in orders for durable goods in November. The Bundesbank sold \$80mn. over the week and the deutschemark closed a little softer at 2.2810. The deutschemark was, for the most part, the weakest currency in EMS although the Belgian franc (38.60) replaced it for brief moments and closed only a fraction off the base. The lead was shared variously by the French franc (5.7617), the lira (1213.45) and the Irish punt (1.5632). The French franc generally held sway but the lira finished at the head, $\frac{1}{8}\%$ distant from the deutschemark.

The French took in \$160mn., half of which in deutschemarks, and the Italians \$135mn., but the Danes sold \$100mn. Elsewhere the Swiss franc gained ground on both the dollar (1.8170) and the deutschemark (0.79 11/16). The Swiss purchased \$130mn. The yen experienced some pressure in the wake of last week's reduction in the discount rate, easing to 220.37. The Bank of Japan sold \$60mn. The Norwegian crown continued firm, enabling the authorities to take in over \$100mn. The Canadians, too, enjoyed a reflux of some \$300mn.

After fixing at \$418 on Thursday morning, gold edged a little lower but remained steady until Monday afternoon when American sellers lent a much softer undertone. The metal declined sharply and was fixed at \$399.60 on Tuesday afternoon. The \$400 level brought out modest support and the final fixing was \$400.40.

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