

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 30th December 1981

In a holiday-shortened week, the exchange markets were quiet and steady. Although tension over Poland heightened, the dollar ended the week a little lower in most centres. Sterling gained ground against the dollar but was stable in Europe; the ERI rose 0.2 to 90.9.

Markets were exceptionally quiet throughout the week but one or two sizeable transactions in sterling were absorbed without difficulty, suggesting a reasonable two-way market. Sterling closed in New York on Wednesday night at 1.8895 and opened in London on Christmas Eve at 1.8905. In minimal activity the rate eased back to 1.8870 before closing at 1.89. Trading remained light in Europe and the US on Monday following Christmas but more business was transacted on Tuesday, when a large order to sell sterling was executed in London with little disturbance to the rate. After holding around the 1.89½ level for most of the day, the rate moved back to a little below 1.89 that afternoon as the dollar strengthened, helped by the firmness of Fed Funds. However, in New York that evening, sterling recovered to move above 1.90 and traded quietly around that level throughout Wednesday touching 1.9042 at best. The pound ended the period at 1.9035, one cent higher over the week. Sterling was virtually unchanged in Europe, finishing at 4.30¼ in Germany, 10.91½ in France and 3.43½ in Switzerland. Against the ECU sterling's premium on its notional central rate was also unchanged at 5½%. Euro-dollar rates eased over the week, three-months' deposits closing 3/16% lower at 14%. The forward discount narrowed to 1¼% and the covered differential improved to ¾% in favour of London.

While events in Poland continued to keep it generally firm, the slightly easier tone to US interest rates meant that by the end of the week the dollar was below its best levels. There was no intervention by the Bundesbank and the deutschemark ended the week ½% better at 2.26. The mark moved away, too, from the bottom of the EMS, where it was replaced by the Belgian franc (38.51). A number of currencies vied for top position in the band, which was only 1¼% wide, but by the close the Danish crown (7.3450) was narrowly ahead with the French franc (5.7345) in second position. The Bank of France bought \$75mn., mostly in deutschemarks, and the Italians sold \$150mn. Elsewhere, the Swiss franc (1.8025) remained firm at 0.79¼ against the mark and the National Bank bought \$40mn. The yen was at first under some pressure on interest rate considerations and the Bank of Japan provided \$160mn. in support; it closed ½% firmer at 219.72. The Swedish crown also needed assistance and the Riksbank sold \$150mn. The Canadians sold \$100mn.

In fairly active trading the gold price gave up further ground. After holding above the \$400 level on Christmas Eve, the price fell in New York on Monday and fixed at \$395 in London on Tuesday afternoon. The final fixing was at \$397.50, \$3 lower over the week.

30th December 1981.

TRS

DAMB

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>24th December 1981</u>		<u>31st December 1981</u>
<u>1.8935</u>	£/\$	<u>1.9150</u>
<u>90.7</u>	Effective exchange rate index	<u>91.2</u>
<u>1 9/16% disc.</u>	Forward 3-months	<u>1$\frac{3}{8}$% p.a. disc.</u>
<u>14 5/16%</u>	Euro-\$ 3-months	<u>13$\frac{3}{8}$%</u>
<u>1/16% pre.</u>	I.B.Comparison	<u>7/16% pre.</u>
<u>2.2790</u>	\$/DM	<u>2.2537</u>
<u>4.31$\frac{1}{2}$</u>	£/DM	<u>4.31$\frac{1}{2}$</u>
<u>10.91$\frac{3}{4}$</u>	£/FF	<u>10.94$\frac{3}{8}$</u>
<u>220.95</u>	\$/Yen	<u>219.67</u>
<u>\404\frac{1}{2}$ (indication)</u>	Gold	<u>\$399</u>
<u>1.8175</u>	\$/S.Fc.	<u>3.44$\frac{3}{8}$</u>
<u>3.44$\frac{3}{8}$</u>	£/S.Fc.	