

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 6th January 1982

Although activity increased as many participants resumed trading, the New Year brought no relief from preoccupations with US interest rates. While end-year pressures disappeared, rising US bond yields kept US rates firm and the dollar steady. Sterling was in some demand and the ERI rose 0.6 to 91.5.

Sterling was a good two-way market throughout the week with sizeable commercial and official demand evident at times. Some easing in Euro-dollar rates as seasonal pressures evaporated led to a slightly wider uncovered interest rate differential in favour of London and this helped to give sterling a generally firm tone. After closing in New York on Wednesday night at 1.9107, sterling opened in London on Thursday at 1.9120 and in a quiet market moved up to 1.9162 on some modest European demand, before a little commercial selling took the rate back to 1.9052. The rate ended 1981 at 1.9110. In a much more active market on Monday, the pound opened in good demand from the Far East at 1.9210 and started to move up steadily. With a large commercial buyer in London and some official interest also fuelling demand, the rate reached 1.9370 in late morning before profit-taking occurred. However, Fed Funds in New York at 13% were much higher than anticipated and as the dollar started to firm that afternoon, sterling fell back. The unexpected rise in US money supply announced on Monday evening meant that on Tuesday Euro-dollar rates had regained the previous day's losses and the dollar was much firmer. Sterling was again actively traded but the rate gave ground, easing to 1.9135 during the afternoon under pressure of some American selling. A sharp fall in Fed Funds in New York on Tuesday evening led to rather softer Euro-dollar rates on Wednesday and sterling again rose briefly above 1.93 before establishing a trading range around 1.92½. The rate ended the period at 1.9235, 2 cents higher over the week. The pound was firmer on the Continent as well, gaining ¾% in Germany (4.32), ½% in France (10.97½) and 1¼% in Switzerland (3.47½). Against the ECU sterling's premium on its notional central rate rose to 6%. Three-month Euro-dollars shed 9/16% over the week, to close at 13 7/16%. Sterling's forward discount widened to 1½% and the covered differential in favour of London was 7/16%.

Although the dollar did start to weaken in the New Year, as had been widely expected, another rise in the money supply (M1B +\$1.4bn.) and an ensuing sharp increase in yields in the US bond market kept pressure on US interest rates and limited its losses. The deutschemark ended the week ½% firmer at 2.2461, with only minimal intervention by the Bundesbank. In the EMS the Belgian franc (38.31) remained at the bottom of the band and some support was necessary, mainly following the cuts in discount and Lombard rates announced on Wednesday. The National Bank sold \$40mn. over the week and the franc closed 1 11/16% below the French franc (5.7037) at the top. The Italians spent \$330mn. in support of the lira (1202.50) following some relaxation of their import deposit requirements but the Dutch bought \$50mn. Elsewhere, the Swiss franc (1.8065) was easier against the deutschemark at 0.80¾. The yen was almost unchanged at 219.40.

Gold was rather volatile. After fixing at \$400 on New Year's Eve, the price fell to \$395 on Monday afternoon when the dollar strengthened. A sharp rebound on Tuesday saw \$407.75 touched outside the fixing but the higher levels were not held and the final fixing at \$401.50 left the price \$4 higher over the week.

6th January 1982.
TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

31st December 1981

7th January 1981

1.9150

£/\$

1.9150

91.2

Effective exchange rate index

91.5

1 $\frac{3}{8}$ % p.a. disc.

Forward 3-months

1 $\frac{1}{2}$ % p.a. disc.

13 $\frac{7}{8}$ %

Euro-\$ 3-months

13 $\frac{5}{8}$ %

7/16% pre.

I.B.Comparison

7/16% pre.

2.2537

\$/DM

2.2620

4.31 $\frac{1}{2}$

£/DM

4.33 $\frac{1}{8}$

10.94 $\frac{3}{8}$

£/FF

10.99 $\frac{1}{2}$

219.67

\$/Yen

220.77

\$399

Gold

\$396

1.7980

\$/S.Fc.

1.8275

3.44 $\frac{3}{8}$

£/S.Fc.

3.50