

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 3rd February 1982

In active and volatile trading the exchange markets returned to domination by US interest rates. Last week's cuts in European interest rates looked endangered by another surge in US rates which took the dollar to its best levels for four months. Sterling again saw good business and the rate held very firm; the ERI rose 0.5 to 91.8.

Although the uncovered interest rate differential on three-month deposits widened during the week to well over 1% in favour of the US, sterling surrendered less ground to the dollar than the other major currencies. The continued daily shortages in the sterling money market helped to keep UK short-term rates fairly tight and support for the rate continued to be derived from the strength of the current account position. Sterling lost half a cent in New York on Wednesday night to close at 1.8690 and opened in London at 1.8685 on Thursday. Good commercial and official demand for the pound soon developed and, as the dollar started to ease generally, the rate moved ahead reaching 1.8895 on Friday morning. However, as the improvement in the US bond market halted that afternoon, some of the gains were lost and sterling closed at 1.8835 before the weekend. Following the disappointingly modest reduction in M1, Euro-dollar rates gained almost 1% on Monday but sterling opened only just over a cent lower and held very firm as the dollar's advance continued. News of prime rate increases strengthened the dollar further on Tuesday and sterling fell to 1.8505 before recovering on the strength of commercial demand. In equally volatile trading conditions on Wednesday, the pound traded actively between 1.86 and 1.87 level before ending the week at 1.8636. Sterling made further gains in Europe, rising by 1½% in Switzerland (3.51½), 1% in Germany (4.38) and ¾% in France (11.14). Against the ECU sterling's premium on its notional central rate rose to 7%. Three-month Euro-dollars were 15/16% firmer over the week at 15 11/16% (after 16 3/16% on Monday). Sterling interbank rates were unchanged, the forward premium widened to 1 5/16% and sterling's intrinsic premium narrowed to ¼%.

With the markets expecting a dramatic reversal of the recent upsurge in US money supply, the \$0.6bn. decline was received with dismay. Most major banks increased their prime rate by ¾% to 16½% and the dollar strengthened in all centres. There was no attempt to restrain the dollar by the Bundesbank and the mark fell 1½% to close at 2.3505. EMS widened a little to 1 7/16% and the lira (1257) replaced the guilder (2.5767) at the top; the Belgian franc (40.0) remaining at the bottom. The French franc closed at 5.9775 and the Bank of France bought \$100mn. of deutschemarks. Outside EMS, the Swiss commercial banks raised their deposit rates ¼/½% and the Swiss franc (1.8880) eased to 0.80½ against the mark. The yen again weakened more than the other major currencies, falling 2½% to close at 234.02, after support totalling \$90mn. The Swedes also spent \$90mn. to help their crown and the Canadians sold \$200mn.

The rally in the gold market continued before the weekend and the price touched \$390 outside the fixing on Friday. However, the dollar's strength on Monday caused a swift reaction and the price fell back through \$380. The final fixing was at \$378, a fall of \$3.75 over the week.

3rd February 1982

TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

28th January 1982

4th February 1982

1.8675

£/\$

1.8665

91.4

Effective exchange rate index

92.0

1 3/16% p.a. pre.

Forward 3-months

1 7/16% p.a. pre.

15½%

Euro-\$ 3-months

15 13/16%

½% pre.

I.B. Comparison

3/16% pre.

2.3330

\$/DM

2.3510

4.35½

£/DM

4.38½

11.08

£/FF

11.16

230.90

\$/Yen

234.80

\$381

Gold

\$385

1.8605

\$/S.Fc.

1.8905

3.47½

£/S.Fc.

3.52¼