

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 10th February 1982

The US budget was received badly by the markets which were dismayed at the size of the likely financing requirement and the implications for US interest rates. In another week of volatile trading the dollar surpassed last week's four-months highs. Sterling fell back with the other currencies and the ERI shed 0.2 to close at 91.6.

Sterling was a very active market and strong commercial and East European demand was evident at various times. The pound initially gained ground against the Continental currencies, reaching its highest levels for some time against the deutschemark, but this attracted some professional selling which increased following the \$1.5 a barrel reduction in North Sea oil prices. Sterling closed at 1.8612 in New York on Wednesday night and opened at 1.8670 in London the following day. In initially rather quiet markets, sterling traded around the 1.86½ level but started to rise on Thursday evening when some reports incorrectly suggested that President Reagan was seeking ways to reduce US interest rates. Sterling touched 1.8772 in early business on Friday but eased back as news of Laker's demise led to some selling, particularly on oil company account. The unexpected fall in US unemployment announced that afternoon caused the dollar to strengthen further and sterling encountered professional selling, shedding two cents to close at 1.8585 before the weekend. News of the reduction in BNOC's oil prices, and fears of a further cut, led to heavy selling of sterling in the Far East on Monday but for the balance of the day in London, on the back of strong East European demand, the rate remained very steady around 1.86, although the dollar strengthened in all other centres. The same pattern was initially followed on Tuesday but the appreciation of the pound against the deutschemark (DM 4.40½) generated some heavy selling from Europe and later from the US. Sterling fell sharply, touching 1.8375 during the afternoon before recovering a little by the close. In quieter markets on Wednesday, sterling traded between 1.84 and 1.85, ending the period at 1.8494. The pound was little changed on the Continent, closing at 4.37½ in Germany, 3.51 in Switzerland and 11.10¼ in France. Against the ECU sterling's premium on its notional central rate eased to 6¾%. Three-month Euro-dollars rose 11/16% over the week closing at their high of 16¾%. Sterling's forward premium widened to 1 11/16% and interest parity prevailed.

The consequences for interest rates of the US budget proposals were the main reason for the strength of the dollar but the unexpected decline in US unemployment and the small fall (\$1.4bn.) in M1 were both contributory factors. The Bundesbank provided only nominal support for the deutschemark which fell a further ½% to close at 2.3655 (after 2.3807 on Tuesday). In EMS, the French franc (6.0030) moved to top position 1¾% above the Belgian franc (40.33). The French bought deutschemarks worth \$150mn., the Belgians sold various currencies worth \$180mn., the Italians sold \$150mn. and the Irish \$50mn. Elsewhere, the Swiss franc (1.8982) fell ½% but remained steady at 0.80½ against the deutschemark while the yen lost a further 1% to close at 236.25. The Swedes provided \$110mn. to help their crown and the Canadians, suffering from a further reduction in the differential between Canadian and US rates, sold \$230mn.

Gold was again a very active market. The price held remarkably steady in the face of the rise in US interest rates and the strength of the dollar. The final fixing was at \$382.15, \$4.15 higher over the week.

10th February 1982.

TRS



RATES, ETC.

10.15 a.m.

10.15 a.m.

4th February 1982

11th February 1982

1.8665

£/\$

1.8522

92.0

Effective exchange rate index 91.6

1 7/16% p.a. pre.

Forward 3-months

1 3/4% p.a. pre.

15 13/16%

Euro-\$ 3-months

16 5/16%

3/16% pre.

I.B. Comparison

1/16% pre.

2.3510

\$/DM

2.3600

4.38 1/4

£/DM

4.37

11.16

£/FF

11.09 5/8

234.80

\$/Yen

235.72

\$385

Gold

\$384

1.8905

\$/S.Fc.

1.8960

3.52 1/8

£/S.Fc.

3.51 1/8