

FOREIGN EXCHANGE AND GOLD MARKETWeek ending 17th February 1982

Although two public holidays in the US made for a rather quieter week on the exchanges, there were nevertheless some sharp movements in rates. Another surge in US money supply took the dollar to new five-month highs. Sterling was again a very steady market and the ERI closed 0.1 higher at 91.7.

There was some reasonable business in sterling at times but for the most part it was a rather featureless market and activity and turnover were not on the scale of many recent weeks. From a closing level in New York on Wednesday night of 1.8570, sterling opened in London on Thursday at 1.8530. After some early professional selling there was some demand for sterling against marks and the rate touched 1.8548 before settling around 1.85. However, the dollar came into strong demand on Friday as operators seemed reluctant to be short in advance of the long US weekend and sterling eased back to 1.8325 that afternoon. Following the money supply the dollar opened much firmer on Monday and from an opening level of 1.8285 sterling fell to 1.8260 before settling around 1.83. In very quiet trading during the remainder of the week, the dollar eased back from its highest levels, helped by the unexpected strength being shown by the US bond market, and sterling rose steadily, breaching 1.84 at times on Wednesday morning. The rate closed at 1.8398. Sterling was slightly stronger in some places on the Continent gaining  $\frac{1}{2}\%$  in Germany (4.39 $\frac{1}{2}$ ) and in France (11.15 $\frac{5}{8}$ ) but was a touch easier in Switzerland (3.50 $\frac{3}{8}$ ). Against the ECU sterling's premium on its notional central rate rose to 7 $\frac{1}{8}\%$ . Three-month Euro-dollars ended the week 3/16% firmer at 16 9/16%. Sterling's forward premium widened to 2 1/16%, leaving a covered differential of  $\frac{1}{8}\%$  in favour of London.

Although economic indicators, such as retail sales and industrial production, again provided evidence of the weakness of the US economy, markets paid more regard to the continued buoyancy of the money supply, which rose \$2.3bn. in the latest week and the tightness in the domestic money market. Fed Funds traded above 16% in the latter part of the week and most banks raised their prime rate by  $\frac{1}{2}\%$  to 17% on Wednesday. The deutschemark fell to 2.4075 on Monday but ended the week little changed at 2.3875 without support from the Bundesbank. In the EMS, there was some pressure on the Belgian franc (40.68) in advance of the long US holiday weekend and it closed 1 $\frac{1}{2}\%$  below the lira (1273.90) after support of \$180mn. The Italians spent \$200mn. The French franc (6.0637) remained in second place and the Bank of France was able to buy deutschemarks worth \$200mn. Outside EMS, the Swiss franc (1.9058) was rather firmer at 0.79 $\frac{3}{4}$  against the deutschemark but the yen fell a further 1%, to close at 239.40 after support of \$250mn. from the Bank of Japan. The Riksbank again supported the Swedish crown, selling \$125mn. and the Canadians sold \$170mn.

Gold was traded actively but the price remained in a rather narrow range. From an opening fixing level of \$381.50, the price eased back as the dollar strengthened but good support was evident at the lower levels. The final fixing at \$374 left the price \$8.15 down on the week.

17th February 1982.

TRS

DATE

RATES, ETC.

10.15 a.m.

10.15 a.m.

11th February 1982

18th February 1982

1.8522

£/\$

1.8417

91.6

Effective exchange rate index

91.7

1 $\frac{3}{4}$ % p.a. pre.

Forward 3-months

1 $\frac{7}{8}$ % p.a. pre.

16 5/16%

Euro-\$ 3-months

16 $\frac{3}{8}$ %

1/16% pre.

I.B.Comparison

3/16% pre.

2.3600

\$/DM

2.3845

4.37

£/DM

4.39 $\frac{1}{8}$

11.09 $\frac{5}{8}$

£/FF

11.15 $\frac{3}{4}$

235.72

\$/Yen

238.10

\$384

Gold

\$371

1.8960

\$/S.Fc.

1.9018

3.51 $\frac{1}{8}$

£/S.Fc.

3.50 $\frac{1}{4}$