

SECRET

1982/13 ✓

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 31st March 1982

All currencies were under pressure against the dollar during a week of active trading. Boosted by end-quarter demand for funds, US interest rates moved up sharply and the dollar rose to its highest levels for over six months. Sterling saw some heavy selling at times and the ERI closed 0.4 lower at 91.0.

Sterling's recent period of exceptional firmness ended at the beginning of the week when a rumour circulated that HM Treasury wished to see the ERI significantly lower. Heavy speculative selling was seen from both New York and Chicago and the rate fell but stabilised again around 1.78½ against an extremely firm dollar. Some commercial demand was evident at the lower levels but less official buying was seen than in recent weeks. As the dollar firmed in New York on Wednesday night sterling moved back with the other currencies to close at 1.8025. After opening in London on Thursday at 1.8045 and touching 1.8065 in early business, the rate drifted lower until late in the day when heavy selling was seen from the US. In active trading the pound fell back to close at 1.7892 in New York that evening. The pressure resumed in London on Friday morning, when commercial sellers took the rate down to 1.7815 before a nervous recovery ensued, enabling sterling to close at 1.7870 before the weekend. With the dollar firming further in Europe after the weekend, as end-quarter demand for dollars forced up US interest rates, sterling traded actively but fairly steadily around the 1.78 level falling to 1.7763 in London on Wednesday morning as the dollar reached its best levels for over six months. The rate ended the period at 1.7833. Sterling's performance on the Continent was a little mixed: it gained ½% against a weak Swiss franc (3.44½) but fell 1½% against a firmer French franc (11.14½) and ¼% against the deutschemark (4.30½). Against the ECU sterling moved to a discount of ½% on its notional central rate. Three-month Euro-dollars rose ¾% over the week to close at 15 7/16%. Sterling's forward premium widened to 2% p.a. and the covered differential to 3/16% in favour of London.

Although another decline in the index of leading indicators pointed to a continuation of the US recession, markets were worried about future growth in money supply and the increases in the budget deficit. This led to a sharp rise in yields in the US bond market and to pressure on long-term US rates, while short-term rates were very firm due to end-quarter window dressing. The deutschemark fell by 1½% to a 7-month low of 2.4252 on Wednesday before closing at 2.4120 after support of \$140mn. from the Bundesbank. In EMS the Belgian franc (45.54) remained at the bottom, 2½% below the mark at the top and the Belgians provided support totalling \$420mn. The French franc (6.2520) firmed within the arrangement and closed only 1% below the mark with no intervention from the Bank of France. The Italians sold \$300mn., the Danes \$100mn. and the Irish \$50mn. Elsewhere, the Swiss franc (1.9312) weakened following a further reduction in commercial banks' deposit rates and it closed at 0.80 against the mark. Fears of the imposition of exchange controls in Japan provoked further outflows from the yen and it fell 2% over the week to 247.62 despite support totalling \$670mn. from the Bank of Japan. The Bank of Canada sold \$200mn.

Gold was an active two-way market. Although the price gave ground in the face of the strength of the dollar, there was some good institutional demand at the lower levels. The final fixing at \$320 left the price \$11.75 lower over the week.

31st March 1982.

TR5

RATES, ETC.

10.15 a.m.

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<u>25th March 1982</u>		<u>1st April 1982</u>
<u>1.8050</u>	£/\$	<u>1.7835</u>
<u>91.4</u>	Effective exchange rate index	<u>91.0</u>
<u>1 7/16% p.a. pre.</u>	Forward 3-months	<u>1 15/16% p.a. pre.</u>
<u>15 1/16%</u>	Euro-\$ 3-months	<u>15 1/8%</u>
<u>1/16% disc.</u>	I.B.Comparison	<u>1/4% pre.</u>
<u>2.3887</u>	\$/DM	<u>2.4113</u>
<u>4.31 1/4</u>	£/DM	<u>4.30</u>
<u>11.24 1/4</u>	£/FF	<u>11.21 1/4</u>
<u>244</u>	\$/Yen	<u>247.50</u>
<u>\$329</u>	Gold	<u>\$326</u>
<u>1.9015</u>	\$/S.Fc.	<u>1.9400</u>
<u>3.43 1/4</u>	£/S.Fc.	<u>3.46</u>