

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 21st April 1982

There were no dramatic developments in the South Atlantic during the week and, while an extremely nervous market, sterling was fairly stable against the dollar. The ERI fell 0.3 to 89.9. Perversely, following a large rise in money supply, US interest rates eased and the dollar weakened in most centres.

Although sterling enjoyed brief periods of strength, mostly in the first part of the period when the Haig mission was at work, for the most part it had a rather softer tone and was at the mercy of the latest rumour over the Falklands. There was, nevertheless, some good two-way business at times and some commercial and sizeable official demand was seen. After closing in New York on Wednesday night at 1.7655, the pound opened in London at 1.7598 on Thursday and soon encountered some active selling from the Middle East which took the rate below 1.76. Rumours during the afternoon that Argentine ships were heading towards the Falklands provoked a wave of selling and the rate fell to 1.7525 before recovering, with the help of some official support. On the other hand, a report on Friday that Argentine troops were leaving the Islands brought some demand for sterling and it closed at 1.7635 that evening. After the weekend, despite a sharp rise in US money supply, the dollar started to weaken progressively as Euro-dollar rates fell back. Sterling was initially very steady around the 1.76 level but moved up, particularly in New York on Monday when, temporarily, there were renewed hopes of a peaceful Falklands settlement. The rate touched 1.7750 and then settled to trade narrowly around the 1.77 level in a quiet market for most of the balance of the week. While there were periods of anxiety, when the rate looked liable to come under pressure, there was no heavy selling and the pound ended the period at 1.7720. On the Continent sterling lost $\frac{1}{2}\%$ against the deutschemark (4.24 $\frac{3}{4}$) but was little changed against either the Swiss franc (3.46 $\frac{5}{8}$) or the French franc (11.07 $\frac{3}{4}$). Against the ECU sterling's discount on its notional central rate rose to 1 $\frac{1}{2}\%$. Three-months Euro-dollars fell $\frac{5}{8}\%$ over the week to close at 14 $\frac{3}{8}\%$. Sterling's forward premium narrowed to 1 $\frac{3}{8}\%$ and the covered differential widened to $\frac{1}{4}\%$ in favour of London.

Although the rise in US money supply (+\$7.lbn.) exceeded most estimates, the market was relieved to have passed the week containing the bulge caused by social security payments and a sharp rally developed in the US bond market. This was fuelled too by lower Fed Funds (14%) and growing expectations that President Reagan would compromise on the budget deficit issue. All these factors combined to weaken the dollar which fell 1% against the deutschemark to 2.3948. EMS closed 2 $\frac{1}{8}\%$ wide between the deutschemark at the top and the lira (1320.10) which replaced the Belgian franc (45.21) at the bottom. The Italians sold \$300mn., only half of which was before exchange controls were tightened at the weekend, and the Belgians sold \$200mn. The French franc (6.2515) weakened following a cut in interest rates and the Bank of France sold \$180mn. Elsewhere, the Swiss franc (1.9560) was easier at DM 0.81 $\frac{1}{2}$, following a further reduction in banks' deposit rates. The sharp fall in US interest rates took pressure off the yen which gained 2% to close at 242.55; the Bank of Japan sold \$110mn.

Gold continued an active market but the price gave up some of its recent gains when a peaceful resolution of the Falklands crisis seemed possible. After touching \$370 in New York on Wednesday night the price fell to \$343 at the afternoon fixing on Tuesday. The final fixing was at \$346.75, a fall of \$20 over the week. The opening on Monday of the London Gold Futures Market had little immediate impact on the physical market.

21st April 1982.

RATES, ETC.

10.15 a.m.

10.15 a.m.

15th April 1982

22nd April 1982

1.7580

£/\$

1.7743

90.0

Effective exchange rate index

90.1

1 15/16% p.a. pre.

Forward 3-months

1½% p.a. pre.

15 9/16%

Euro-\$ 3-months

14 15/16%

¼% pre.

I.B. Comparison

¼% pre.

2.4225

\$/DM

2.3980

4.25½

£/DM

4.25½

11.08½

£/FF

11.09½

248.15

\$/Yen

243.10

\$362

Gold

\$344

1.9715

\$/S.Fc.

1.9620

3.46½

£/S.Fc.

3.48½