

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 12th May 1982

With no serious developments in the Falklands dispute it was a much quieter week on the exchanges. Interest rates everywhere eased a little helped by moves towards a compromise between President Reagan and Congress over the US budget deficit and a large fall in US money supply. Sterling's ERI rose 0.8 to 90.4.

Sterling had a stable and much more comfortable week. Although there were brief periods of nervousness, particularly on Thursday evening, when two Harriers were lost in the South Atlantic, there were no major military engagements to upset the exchanges. After closing a quiet night in New York on Wednesday at 1.8060, overnight news of the progress on the US budget issue and improving hopes for the UN peace plan for the Falklands gave sterling a much firmer tone on Thursday and from an opening rate of 1.8235 it rose quickly to 1.8280. The rate then settled back around the 1.82 level but ran into some heavy selling in New York that evening when reports indicated that the two Harriers lost around the Falklands had been shot down by the Argentines. The pound fell to 1.8150 before recovering, as the original rumours proved unfounded, and it closed at 1.8275 in London before the weekend. The large fall in US money supply made for a weaker dollar at the opening on Monday and from 1.8330 the pound moved up to 1.8385 during the day as it emerged that Argentina would not insist on sovereignty over the Falklands in a peace settlement. As the dollar weakened on Tuesday and Wednesday, sterling moved steadily ahead, helped by the good February trade figures, reaching 1.8450 early on Wednesday morning, before ending at 1.8385. The pound gained $\frac{1}{4}\%$ in Germany (4.19 $\frac{1}{4}$) and France (10.93 $\frac{1}{4}$), and $\frac{1}{4}\%$ in Switzerland (3.52). Against the ECU sterling's discount on its notional central rate narrowed to 2 $\frac{1}{16}\%$. Three-month Euro-dollars fell $\frac{1}{2}\%$ over the week to close at 14 $\frac{7}{16}\%$ and sterling interbank rates were similarly easier. Accordingly, sterling's forward premium was unchanged at 1 $\frac{3}{8}\%$, as was the intrinsic premium at $\frac{1}{4}\%$.

The flow of funds into Germany continued throughout the week, despite generally lower interest rates following the abolition of Special Lombard rate at 9 $\frac{1}{2}\%$ on Thursday. Progress towards an agreement between the President and Congress on a reduction of the US budget deficit, taken in conjunction with the decline in US money supply (\$4.9bn.) gave the dollar an easier tone. The deutschemark continued to forge ahead, gaining 1 $\frac{1}{2}\%$ over the week to close at 2.2803 (after 2.2637), putting further pressure on EMS. Both the Belgian franc (43.07) and the French franc (5.9490) required support, \$110mn. and \$570mn. respectively, and by the close the Belgian franc was 2 $\frac{1}{8}\%$ from the mark with the lira 2 $\frac{3}{4}\%$ adrift. Political problems caused the guilder (2.5348) to weaken and the Nederlandsche Bank sold DM worth almost \$50mn. A further $\frac{1}{2}\%$ cut in Swiss commercial banks' deposit rates hit the Swiss franc (1.9145) which closed at DM 0.84. The yen was little changed at 233.22. The Canadian dollar was weak and the Bank of Canada sold \$500mn.

With no major hostilities in the South Atlantic the gold market was less volatile and the price eased further. The final fixing at \$331.50 left it \$6.90 lower over the week.

12th May 1982.

TRS 

RATES, ETC.

10.15 a.m.

10.15 a.m.

6th May 1982

13th May 1982

1.8227

£/\$

1.8360

90.2

Effective exchange rate index

90.6

1½% p.a. pre.

Forward 3-months

1 11/16% p.a. pre.

14 13/16%

Euro-\$ 3-months

14½%

¼% pre.

I.B.Comparison

⅜% pre.

2.3095

\$/DM

2.2905

4.21

£/DM

4.20½

10.97¼

£/FF

10.97¼

233.12

\$/Yen

234.57

\$334

Gold

\$332

1.93

\$/S.Fc.

1.9380

3.51¼

£/S.Fc.

3.55¼