

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 26th May 1982

Although there was little change in rates over the week as a whole, the gains and losses sustained in the bid to recapture the Falklands inevitably made for an erratic and nervous week on the exchanges. Sterling was heavily sold in the first part of the week but recovered later as operators covered short positions. The ERI, after fluctuating between 88.5 and 89.8, closed 0.1 higher at 89.7.

With the commencement of the annual Forex Congress in London and the Ascension Day holiday in Europe, markets were particularly thin in the early part of the week. At that time, with the invasion of the Falklands appearing imminent, there were few operators prepared to hold sterling and some official support was necessary. However, the success of the landings, although offset by heavy naval losses, pleased the market and there was some good buying of sterling in the last three days of the week. The pound closed a difficult evening in New York on Wednesday at 1.7872 and opened in London after some pressure in the Far East at 1.7832. Sizeable selling, mainly from the Middle East and London, developed during the day in a thin market and with New York banks also seeking to extend short sterling positions, the rate fell steadily, bottoming at 1.7742 before recovering to 1.7785 by the close that day. Some short covering on Friday, particularly from New York, brought a swift recovery enabling sterling to breach 1.80, and touch 1.8070, before closing at 1.7945. The successful invasion of the Falklands over the weekend gave rise to some strong demand for sterling on Monday and Tuesday on both commercial and professional account. The rate rose steadily to reach 1.8145 at best in New York on Tuesday evening but, for the most part, the rate traded actively between 1.80 and 1.81. News of the loss of HMS Coventry caused some temporary weakness on Wednesday and the rate ended the period at 1.8010. Sterling's performance on the continent was rather mixed: it was a touch firmer in Germany (4.17½) but lost ½% in both France (10.83½) and Switzerland (3.53½). Against the ECU sterling's discount on its notional central rate was unchanged at 2¾%. Three-month Euro-dollars eased 5/16% to 14 3/16%, the forward premium to 1 3/16%, leaving sterling's intrinsic premium at ¼%.

Hopes that the Fed were becoming a little more relaxed in their application of monetary policy were diminishing by the end of the week following an unexpected rise in M1 (\$2.3bn.). Although Fed funds traded down to 13% and some prime rates were reduced by ½% to 16%, the early weakness of the dollar disappeared and the deutschemark ended the week almost unchanged at 2.3163. EMS was under little pressure and no significant intervention was necessary. By the close the Belgian franc (43.76) was 2 3/16% below the deutschemark with the lira (1281.25) 2 7/16% distant. Elsewhere, the Swiss franc (1.9630) was a little firmer at DM 0.84¾ following an increase in the commercial banks' deposit rates. The yen (240.30), however, was weak both for seasonal reasons and because of further capital outflows. The Bank of Japan provided heavy support selling \$530mn.

Gold was again a fairly active market. The commencement of the invasion of the Falklands was a signal for profit-taking and the price moved back steadily to fix at \$327.90 on Tuesday morning. The loss of HMS Coventry provoked some recovery and the final fixing at \$330.25 left the price \$11.75 lower over the week.

26th May 1982

TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

20th May 1982

27th May 1982

1.7865

£/\$

1.7982

89.1

Effective exchange rate index

89.9

1 5/16% p.a. pre.

Forward 3-months

1 3/16% p.a. pre.

14 11/16%

Euro-\$ 3-months

14 3/8%

5/16% pre.

I.B. Comparison

3/8% pre.

2.32

\$/DM

2.3310

4.14 1/2

£/DM

4.19 1/8

10.79 3/4

£/FF

10.90 3/8

238.40

\$/Yen

241

\$342

Gold

\$323

1.9790

\$/S.Fc.

1.9715

3.53 1/2

£/S.Fc.

3.54 1/2