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SECRET

1982/39

FOREIGN EXCHANGE AND GOLD MARKETS

Week ended 29th September 1982

The dollar remained generally firm, less on account of domestic developments than on problems elsewhere - political uncertainty in Germany and banking difficulties in Japan. Sterling saw some good two-way business, with the ERI, after touching 92 on Tuesday, finishing 0.1 down over the week at 91.6.

Sterling closed at 1.7170 in New York on Wednesday and on Thursday, against a rather firmer dollar, touched 1.7175 in early business. As the dollar strengthened, the rate gave up ground slowly, closing on Thursday at 1.7096 and, trading early on Friday, at 1.7041. Later, as the dollar fell back, sterling recovered swiftly to 1.7089, on the back of strong East European demand, and to 1.7110 at the close in New York - the UK's trade figures seemed to have no effect. On Monday, following a sharp upwards move by the dollar in the Far East, sterling traded in London in a narrow range around 1.70½, with some good interest in sterling from an oil company. After the close in Europe, with the IMM taking the dollar higher, sterling fell back to 1.6925 at one point, before recovering to close in New York at 1.7005. A mixed day for the dollar on Tuesday saw sterling open at 1.7010, decline to 1.6931 by early afternoon but, after weathering another cut in the Bank's bill dealing rates and some sizeable selling, move up to close in New York at 1.7030. On Wednesday, with the pound facing similar pressures - the selling related to the conversion of a large sterling acceptance credit - sterling closed against the dollar at 1.6971 with the ERI 0.3 down on the day. Sterling was little changed over the week against the deutschemark (4.28¾) and the French franc (12.10½) and against its notional central rate against the ECU (2% premium), but rose ¾% against the Swiss franc (3.67½). Three-month Euro-dollars declined by ½% to 11¾% and with the sterling interbank rate 5/16% lower at 10 9/16%, the forward premium widened to 1%.

After early worries that the Fed had tightened its stance, the US fixed interest markets continued their move upwards. However, despite lower interest rates, the dollar remained generally firm, helped partly by a further reduction in price inflation in the US (consumer prices up by 0.3% in August), but mainly as a result of continuing uncertainty elsewhere. The yen reached new five-year lows (270.12) following rumours, one subsequently confirmed, about two Japanese banks, and closed at 268.42, 2½% lower against the dollar with the Japanese selling \$470mn. In EMS, the deutschemark came under pressure following an easing of minimum reserve requirements, a larger than expected current account deficit and continuing political uncertainty. The Germans sold \$100mn. (other EC countries also bought \$100mn. of deutschemarks). The deutschemark (2.5240) fell 1½% over the week; as also did the French franc (7.1327). The Belgian franc had a difficult week and despite the Belgians selling \$160mn., the gap between the franc and the punt, at the top of EMS, widened to 1½%. Elsewhere, the Swedish crown reached new lows (6.2850) with the Riksbank selling \$425mn. and the Canadians sold \$180mn. The Swiss franc was also weak, declining 1½% to 2.1655.

The revival seen on Wednesday, with gold trading around \$440, lasted only until the weekend. Then, as the dollar moved sharply higher, gold declined, with the final fixing on Wednesday at \$409.75 and later trading taking place below \$400.

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