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FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 24th November 1982

In the first half of the week sterling appeared to have regained some stability, but authoritative-sounding articles in the Sunday press, alleging that the Government was contemplating a larger depreciation, and the Labour Party's plans for a 30% devaluation of sterling, caused renewed heavy pressure on Monday and, to a lesser extent, on Wednesday. After touching lows of 1.5815 and DM 4.01 $\frac{1}{2}$, sterling closed the week with the ERI down 1.2 at 86.6. Although moving erratically from day to day, overall the dollar continued to ease, with the yen, in particular, strengthening sharply.

Sterling closed a quiet night in New York on Wednesday at 1.6005 and opened in London on Thursday at 1.5975. Selling by German banks and a rumour that the Saudi oil price might be reduced caused some early pressure, but during an uneventful afternoon, sterling moved higher to close in London at 1.6017. The Chancellor's firm statement in the House rejecting a policy of depreciation and an easier dollar, as hopes rose for a reduction in the US discount rate, saw sterling strengthen in New York on Thursday at 1.6105 and, in London on Friday, closing at 1.6211. However, from the commencement of business in the Far East on Monday morning, sterling was sold heavily - particularly from the branches of US banks in Singapore and Hong Kong - and, despite sizeable support, the rate moved down to touch a new six-year low of 1.5815, before settling to trade nervously between 1.58 and 1.59. By the London opening the rate had recovered to 1.5940, but new waves of selling, mainly of a small-scale commercial nature, commenced and the rate fell away rapidly, bottoming in mid-morning at 1.5865 and DM 4.01 $\frac{1}{2}$. Late in the morning the pound began to recover and, despite the dollar strengthening, closed at 1.5940 (DM 4.04 $\frac{1}{2}$). On Tuesday, some stability returned and sterling traded in London around 1.59. Later in New York, after rising to 1.6025 as the dollar weakened, the rate closed at 1.5970. Sterling encountered renewed pressure in the Far East on Wednesday morning with the pound falling to around 1.5855, as the market reacted to the public unveiling of the Labour Party's plans. Sterling opened in London against a weaker dollar at 1.5920 but, as the dollar eased further, sterling moved higher to close at 1.5991. Over the week, the pound fell 1 $\frac{1}{2}$ % against the deutschemark (4.04 $\frac{1}{2}$), French franc (11.42 $\frac{3}{8}$) and Swiss franc (3.46 $\frac{3}{8}$). Against its notional central rate against the ECU, sterling lost 1% to a 2 $\frac{1}{2}$ % discount. Three-month Euro-dollars declined by $\frac{1}{2}$ % to 9 $\frac{3}{8}$ % and sterling's forward premium was 9/16%.

In the early part of the week, the dollar eased in anticipation of the discount rate cut which was finally made on Friday. Somewhat perversely, however, on Monday and Tuesday, the dollar recouped most of its losses before a stronger yen again moved the dollar lower. Over the week the dollar fell 1 $\frac{3}{8}$ % against the major Continental currencies - deutschemark (2.5280), French franc (7.1440) and Swiss franc (2.1682) - and 4% against the yen (251.85). EMS remained almost fully-stretched with the guilder at the top and the Belgian franc becoming isolated at the bottom, more than 1% below any other currency, following heavy support for their currencies by the French (\$725mn.), Italians (\$215mn.) and Irish (\$165mn.)

In light trading, gold moved in a narrow range around the price of \$409.25 struck both at the first fixing last Thursday and the final fixing.

24th November 1982.

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