

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 2nd February 1983

The dollar moved steadily higher through the week as markets became increasingly pessimistic about the direction of US interest rates in the near future. Sterling remained on the sidelines, although a new low of 1.5140 was set on Tuesday as the dollar strengthened. The ERI closed 0.1 higher at 81.3.

Sterling drifted back, as the dollar rose, to close in New York on Wednesday at 1.5360. On Thursday, after opening at 1.5407 and touching 1.5427 in early business, the pound again eased to settle around 1.53 $\frac{3}{4}$  for the remainder of the day in light activity. After the close in London, with rumours emanating from New York of a British bank in financial difficulties, sterling eased further, despite the good December trade figures, to close in New York at 1.5335. By Friday morning the pound had recovered to 1.5382 and it traded around this level through to the opening on Monday when with the dollar moving further ahead, sterling began to drift lower. Following some discussion on the news services that OPEC might agree on a \$4 a barrel price cut, New York came in, in the afternoon, as modest sellers of sterling and the rate fell further to close at 1.5254 in London and 1.5207 in New York. After opening unchanged in London on Tuesday, the pound came under active selling pressure in the first hour of business, with an oil company, among others, selling sterling against deutschemarks, and it fell back, to touch a new low of 1.5140 against a stronger dollar. However as the dollar eased, and helped by some useful commercial demand from Scandinavia, the rate recovered quite quickly to 1.5285 shortly after noon. News that the Soviet Union was reducing the price of its crude by \$2.15 a barrel caused a setback to 1.52 before sterling recovered to close at 1.5255. On Wednesday, in quiet conditions, sterling traded around 1.52, as the dollar continued to strengthen, and closed at 1.5196. The pound improved by 1% against the Swiss franc (3.10), deutschemark (3.77 $\frac{1}{2}$ ) and French franc (10.71) and by  $\frac{1}{2}$ % against its notional central rate against the ECU (to a discount of 8 $\frac{1}{2}$ %). Three-month Euro-dollars rose by  $\frac{3}{8}$ % to 9 9/16% and sterling's forward discount narrowed by 3/16% to 2 1/16%.

With further signs of a recovery in the US economy and a continuation of worries about the size of the prospective budget deficit pessimism about the prospects of a cut in the discount rate in the near future increased. As a result the dollar strengthened steadily, to show a gain of 1 $\frac{1}{4}$ % against sterling and 2 $\frac{1}{4}$ % against other major currencies - deutschemark (2.4870), French franc (7.0485), Swiss franc (2.0397) and yen (241.63). EMS again remained quiet, although the band remained almost fully stretched throughout between the guilder at the top (with the Dutch buying \$120mn. in a mixture of Belgian francs and deutschemarks and the Belgian franc at the bottom (with the Belgians selling \$60mn. of guilders). The French franc remained steady against the deutschemark at around DM 2.83 $\frac{1}{2}$ , and the Bank of France bought \$250mn. of deutschemarks.

Despite the firmness of the dollar, gold moved up, on the back of strong demand for silver, and on Monday it fixed above \$500 for the first time since May 1981. It moved higher the following day to a fix of \$508.50, before easing to close at \$498.25.

2nd February 1983.

OP JP

RATES, ETC.

10.15 a.m.

10.15 a.m.

27th January 1983

3rd February 1983

1.5365

£/\$

1.5230

81.0

Effective exchange rate index

81.0

2½% p.a. disc.

Forward 3-months

1½% p.a. disc.

9¾%

Euro-\$ 3-months

9 7/16%

½% pre.

I.B.Comparison

+½% pre.

2.4335

\$/DM

2.4700

3.73¾

£/DM

3.76¼

10.60¼

£/FF

10.66¼

236.55

\$/Yen

239.10

\$490.50

Gold

\$507.50

1.9927

\$/S.Fc.

2.0207

3.06¼

£/S.Fc.

3.07¾