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FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 30th March 1983

After the hectic activity of the past few weeks, the exchange markets entered a quiet period in the run-up to Easter. A warning from Henry Kaufman of the need for higher short-term US interest rates if growth in money supply is to be controlled helped to keep the dollar very firm. Sterling traded fairly steadily but rose at the end of the week, following the announcement of BNOC's new oil prices. The ERI ended 0.2 higher at 78.5 after a new low of 77.9 at the opening on Thursday.

Sterling was a very nervous market at the beginning of the period but the tone improved as the week wore on helped by growing optimism that the cut in the price of North Sea oil would not be sufficient to disrupt the OPEC settlement. Although the dollar/sterling rate fell to a series of new lows, this was largely a reflection of the strength of the dollar. Having closed at 1.4632 in New York on Thursday night, the pound opened in London on Thursday at 1.4602 but immediately encountered heavy selling as dealers misinterpreted Venezuela's new oil prices as undercutting, rather than implementing, the recent OPEC agreement. The rate fell to 1.4555 at this time but, with the dollar easing temporarily on profit-taking later that day, the pound recovered to touch 1.4665. Markets became relatively quiet thereafter but the dollar strengthened for much of the remainder of the week with Henry Kaufman predicting higher short-term US rates and the dollar in strong demand for seasonal window-dressing purposes. Sterling traded for the most part between 1.4525 and 1.46 falling on Monday to a new all-time low of 1.4515 when the dollar was at its best in Europe. Activity was, however, light and when dealings for April commenced on Wednesday and the dollar eased a little, sterling moved above 1.46, helped by the announcement of the cut to \$29.75 by BNOC. The rate closed at 1.4641. The pound was unchanged in Europe, closing in Germany at 3.54 $\frac{3}{8}$ , in France at 10.62 $\frac{1}{2}$  and in Switzerland at 3.03 $\frac{1}{2}$ . Against its new notional central rate sterling eased to a discount of  $\frac{1}{2}$ %. Three-month Euro-dollars were 1/16% lower at 9 9/16% but they touched 9 13/16% on Tuesday when dealings were for the end of the quarter. The cost of forward cover narrowed to 1%.

As well as seasonal pressures and concerns over whether or not the Fed had tightened monetary policy, US interest rates were held steady by the weight of the US Treasury borrowings undertaken in the second half of March. The dollar accordingly remained firm throughout most of the week but it traded in a relatively narrow range, ending little unchanged against the deutschemark at 2.4204. The deutschemark was at the bottom of EMS throughout the week, 2 $\frac{1}{2}$ % below the French franc (7.2575) at the top. The French continued to recoup, at a loss, some of their support of the past few months, buying \$1.lbn. in deutschemarks, while the Germans sold \$500mn., mostly in French francs. Despite last week's large reduction in interest rates, the Belgian franc settled in the middle of the band and the National Bank was able to buy \$300mn., mostly in guilders. In addition, the Italians bought \$200mn. and the Irish \$60mn. Elsewhere, the Swiss franc moved closely in line with the deutschemark, closing at 2.0757 while the yen (239.15) after a firm start to the week, ended on a soft note with growing expectations of an early cut in the Japanese discount rate.

Gold was a quiet market and trading remained relatively subdued. The price rose at the end of the week, ending at \$418, a rise of \$8 over the week.

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