

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 11th February 1981

Although active before the weekend, the exchanges became rather lifeless in the latter part of the week. The dollar made further gains, helped by firm US interest rates and the weakness of the deutschemark. Sterling was largely on the sidelines, with turnover at a low level. The ERI rose 0.1 to 104.2.

Apart from Thursday, when there was considerable activity in sterling and the rate ranged quite widely, sterling was mostly a very quiet market, the rate moving fairly narrowly. On Wednesday night in New York sterling closed at 2.3480 but it opened in London a cent lower the next day at 2.3382 and eased a little in early business as fears about MLR overshadowed the market. However, the presence of a very large commercial buyer provided strong support and the rate traded up to 2.3610 before the no change announcement. During the afternoon, following a report that the Prime Minister was considering ways of causing some depreciation in the rate, the market became nervous and sterling fell back sharply. The softer tone was evident again on Friday when, against a much stronger dollar, the rate fell to 2.3245 before recovering to 2.3312 that evening. After the weekend sterling opened at 2.33 and firmed slowly to establish a trading range around 2.34, ending the period comfortably at 2.3355. The pound returned close to its best levels in Europe, gaining $\frac{3}{8}\%$ in Germany (5.02 $\frac{1}{2}$), 1% in Switzerland (4.56 $\frac{3}{8}$) and $\frac{1}{8}\%$ in France (11.58 $\frac{3}{8}$). Against the ECU sterling went to 1.9313, a premium of 20 $\frac{1}{2}\%$ on the notional central rate. Three-month Euro-dollars were a little firmer and sterling's forward premium widened to 4 $\frac{1}{8}\%$. The covered differential in favour of London narrowed to 1/16%.

A further increase in tension in Poland, together with the firmness of US interest rates (Morgan Guaranty's $\frac{1}{2}\%$ cut in prime to 19% was not followed by the other majors) combined to carry the dollar close to its best levels. To assist the deutschemark, the Germans on Friday tightened liquidity in the domestic market and direct support was also provided by the Fed and the Bundesbank each selling some \$200mn. The weakening of the mark placed some pressure on the EMS before the weekend, when the Germans sold \$60mn.-worth of French francs, the French bought \$220mn.-worth of deutschemarks and \$50mn.-worth of Belgian francs and the Belgians sold \$75mn.-worth of French francs. By the close, however, the arrangement was under less strain, with the Belgian franc (34.52) 2 3/16% from the French franc (4.96) and the lira (1017) 3 $\frac{1}{2}\%$ distant after sales of \$170mn. Elsewhere, the Swiss franc (1.9540) stayed with the deutschemark, losing 1 $\frac{1}{2}\%$ over the week. The yen was steady, closing at 203.60. Despite recent measures to increase interest rates the Swedish crown required some support and the Riksbank sold \$35mn. net. The Bank of Canada sold \$40mn. in support of the Canadian dollar.

Gold was a fairly active market, price movements depending on whether concerns over Poland, or the high level of US interest rates, were currently uppermost in participants' minds. The price fell before the weekend, to fix at \$497 on Thursday morning but rose thereafter to \$519.50 on Tuesday afternoon. However, the higher levels could not be sustained and the price ended at \$501, little changed over the week.

11th February 1981.

TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

5th February 1981

12th February 1981

2.3470

£/\$

2.3270

103.9

Effective exchange rate index

104.5

4 3/16% pre.

Forward 3-months

4 7/8% pre.

17 1/8%

Euro-\$ 3-months

18 1/8%

1/2% pre.

I.B.Comparison

1/16% pre.

2.1265

\$/DM

2.1755

4.99

£/DM

5.06 1/2

11.50 1/8

£/FF

11.64 1/8

202.50

\$/Yen

204.70

\$495

Gold

\$494.25

1.9167

\$/S.Fc.

1.9880

4.49 1/8

£/S.Fc.

4.62 1/8