

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 18th March 1981

After the sharp increases of the last few months, interest rates throughout the world moved lower during the week. The descent was led by US interest rates as the economy began to show signs of weakness but German short-term rates also fell and the Japanese cut their discount rate. Sterling was steady on the Continent but rose sharply against the weaker dollar; the ERI advanced 0.9 to 100.2.

Despite last week's cut in MLR uncovered interest rate differentials between the UK and other major centres narrowed sharply during the week and sterling came into good demand at times. The firm under-tone was helped, too, by the publication of the large trade surplus for February and the continued decline in the rate of increase of earnings. Sterling closed in New York on Wednesday night at 2.2180, opened in London on Thursday at 2.2122 and moved up a little in a quiet market against an easier dollar to close at 2.2205 before the weekend. Although some softness in sterling was evident at the opening on Monday, as the effect of lower Euro-dollar rates began to take its toll of the dollar, the rate started to rise helped by some demand on official account. Further official and some professional buying was seen on Tuesday and following the announcement overnight of the sharp fall in US housing starts, the dollar opened much weaker on Wednesday. On the back of a sizeable commercial buying order, sterling moved up further to reach 2.2750 in early business before ending the period at 2.2725, a rise of 5 cents over the week. The pound was very steady against the major Continental currencies, closing unchanged in Germany at 4.69½ and in France at 11.07½ but it lost 1% in Switzerland (4.26½). Against the ECU sterling went to 1.8477, a premium of 16% on the notional central rate. Three-months' Euro-dollars shed 1½% during the week and sterling's forward premium narrowed to 1½%, leaving a differential of ½% in favour of London.

The fall in US industrial production in February and the 24% reduction in the number of new houses starting construction provided the first firm evidence that the prolonged high level of interest rates was curtailing growth in the real economy. Euro-dollar rates fell sharply over the week, prime rates edged ½% lower to 17½% and the dollar lost some 2½% against the major European currencies. The deutschemark (2.0635) lengthened its lead a little at the head of EMS and sizeable support was necessary for the Belgian franc (33.87) at the bottom of the narrower band. The National Bank sold DM-worth \$270mn. and the Bundesbank bought Belgian francs worth \$10mn. The French franc (4.8747) seemed comfortable in second place in the arrangement but the Bank of France nevertheless sold \$250mn. of DM. The lira (1008½) again came under pressure falling 4 11/16% below the mark despite sales of \$650mn. The Danes sold \$80mn. and the Irish \$50mn. Elsewhere, the Swiss franc (1.8755) strengthened to 0.90½ against the deutschemark. In a widely anticipated move, the Japanese cut their discount rate by 1% to 6½% to stimulate growth in the domestic economy but there was little impact on the yen which closed at 207.67. Both the Swedish crown and the Canadian dollar continued to improve and their central banks were able to buy \$200mn. and \$350mn. respectively.

Gold was a very active market with the fall in US interest rates sparking off a substantial rally. The first fixing was at \$477.50 but thereafter the price moved up to fix at \$506 on Wednesday afternoon, a rise of \$30 over the week.

18th March 1981.
TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>12th March</u>		<u>19th March</u>
<u>2.2169</u>	<u>£/\$</u>	<u>2.2812</u>
<u>99.0</u>	<u>Effective exchange rate index</u>	<u>100.1</u>
<u>2 9/16% pre.</u>	<u>Forward 3-months</u>	<u>1 3/8% pre.</u>
<u>15 7/16%</u>	<u>Euro-\$ 3-months</u>	<u>14%</u>
<u>3/16% disc.</u>	<u>I.B.Comparison</u>	<u>1/16% disc.</u>
<u>2.1127</u>	<u>\$/DM</u>	<u>2.0463</u>
<u>4.68 3/8</u>	<u>£/DM</u>	<u>4.66 3/8</u>
<u>11.04 1/2</u>	<u>£/FF</u>	<u>11.02</u>
<u>207.25</u>	<u>\$/Yen</u>	<u>207.90</u>
<u>\$475</u>	<u>Gold</u>	<u>\$513</u>
<u>1.9322</u>	<u>\$/S.Fc.</u>	<u>1.8592</u>
<u>4.28 3/8</u>	<u>£/S.Fc.</u>	<u>4.24 1/8</u>