

## FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 25th March 1981

Markets reacted calmly to the changes in the EMS brought about by the devaluation of the lira. An increase in tension in Poland and a halt to the recent falls in US interest rates helped the dollar to strengthen. Sterling was generally in demand and the ERI rose 0.4 to 100.6.

Although some softness in sterling was evident on Thursday thereafter steady commercial and official demand was seen. Developments in Poland and a further fall in the annual rate of inflation helped sterling's firmer tendency. As the dollar weakened sharply in New York on Wednesday night sterling moved up to close at 2.2930 but, after opening only 10 points lower in London the next day, some sizeable commercial selling took the rate back quickly to 2.2695 before it stabilised. Buoyed up by some official buying, sterling initially remained steady as the dollar recovered on Friday but pressure from the IMM developed that evening and the pound closed in New York at 2.2555 before the weekend. The growing anxiety over Poland meant that the dollar was much firmer on Monday and sterling touched 2.2362 in early business before widespread commercial and official demand helped the rate to firm. Further buying was seen in New York on Monday night and the commercial demand, in particular, continued on both Tuesday and Wednesday when the rate traded actively in the 2.25-2.27 range. Sterling ended the period firm at 2.2593,  $\frac{1}{4}$  cents lower over the week. The pound gained a little ground on the Continent, rising  $\frac{3}{8}$  against the deutschemark and the French franc to 4.72 $\frac{1}{2}$  and 11.14 $\frac{1}{2}$  respectively and 1 $\frac{1}{2}$  against the Swiss franc to 4.30 $\frac{1}{2}$ . Following the devaluation of the lira, sterling's notional central rate against the ECU was fixed at 0.542122. Three-months' Euro-dollar rates rose  $\frac{1}{4}$  over the week to 14 9/16% and sterling's forward premium widened  $\frac{1}{8}$  to over 2%. With sterling interbank rates only slightly firmer, the covered differential was narrowly in favour of London.

The call for a national strike in Poland caused the dollar to strengthen sharply after the weekend. In addition, although prime rates moved down another notch to 17%, the weakness seen in last week's US economic indicators was not repeated: the announcement on Friday of the \$2.lbn. increase in M1B, coupled with a small rise in orders for durable goods helped the dollar's firmer tone. The deutschemark fell  $\frac{1}{2}$  to 2.0930 but remained at the top of the EMS, where considerable tension was evident. Over the weekend the lira (1041.85) was devalued by 6%\* and discount rate increased by  $\frac{2}{4}$  to 19% but large support was still required: the Bank of Italy sold \$1bn. The lira closed in the top half of the EMS,  $\frac{1}{4}$  below the mark. As pressure on the Belgian franc (34.27) grew, the authorities there raised both discount rate and Lombard rate on Wednesday and the franc improved to 2 1/16% below the mark after support equivalent to \$350mn., mostly in marks. The French franc (4.9340) remained in second place in the arrangement and the Bank of France sold \$200mn.-worth of deutschemarks. The Irish sold \$80mn. Elsewhere the Swiss franc (1.9070) eased to 0.91 against the mark and the yen (209.02) also weakened a little. The Swedish crown continued firm and the Riksbank was able to buy \$125mn.

The troubles in Poland helped last week's rally in gold to continue despite the rise in US interest rates. The first fixing was at \$512.75 and the price moved up quickly after the weekend to trade fairly narrowly around \$535 before easing back to \$528 at the afternoon fixing on Wednesday, to give a rise of \$22 over the week.

25th March 1981.

\* against the DM

TRS

D.A.M.  
2

RATES, ETC.

10.15 a.m.

19th March

2.2812

100.1

1 $\frac{3}{8}$ % pre.

14%

1/16% disc.

2.0463

4.66 $\frac{3}{8}$

11.02

207.90

\$513

1.8592

4.24 $\frac{1}{8}$

10.15 a.m.

26th March

2.2611

100.8

2 $\frac{1}{8}$ % pre.

14 15/16%

$\frac{1}{8}$ % disc.

2.0915

4.72 $\frac{7}{8}$

11.15 $\frac{5}{8}$

210.10

\$534

1.9055

4.30 $\frac{7}{8}$

£/\$

Effective exchange rate index

Forward 3-months

Euro-\$ 3-months

I.B.Comparison

\$/DM

£/DM

£/FF

\$/Yen

Gold

\$/S.Fc.

£/S.Fc.