

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 8th April 1981

Mounting concern over Soviet intentions towards Poland, coupled with abrupt changes in US short-term interest rates, made for a nervous and erratic week on the exchanges. The dollar fluctuated sharply in response to these differing considerations but ended the week generally rather firmer. Sterling weakened, encountering some heavy selling, particularly on Monday; the ERI fell 0.8 to 99.4.

Growing speculation about the timing of the next cut in MLR caused some softness in sterling throughout the early part of the week. However, the rate firmed a little following the release on Tuesday of the banking statistics indicating a larger-than-expected $\frac{3}{4}\%$ rise in EM3, which was taken to rule out an early reduction. After closing in New York on Wednesday night at 2.2420, sterling opened at 2.2397 in London the next day and gave some ground in advance of the MLR announcement. Selling by the IMM in New York took the rate briefly below 2.20 on Thursday night but having initially rallied to 2.2145 on Friday morning the rate fell back in the afternoon as the dollar advanced, to close at 2.1970 before the weekend. On Monday, with the dollar continuing to strengthen on concerns over Poland, sterling was hit by a very large commercial selling order and, in a rather thin market, the rate fell steadily to a low of 2.1670 before turning. Tuesday's banking statistics aided sterling's recovery and on Wednesday as the dollar fell back, the rate returned above 2.20 to end the period at 2.2110, 3 cents lower over the week. Sterling lost ground on the Continent as well, falling by $\frac{1}{4}\%$ against both the mark, to 4.68 $\frac{1}{2}$, and against the French franc, to 11.05 $\frac{1}{2}$, and by $\frac{1}{2}\%$ against the Swiss franc to 4.26 $\frac{1}{2}$. Against the ECU sterling's premium over its notional central rate moved down to 3/16%. Three-month Euro-dollar rates, although well below the highest level seen during the week, nevertheless closed 1% up at 15 $\frac{1}{4}\%$. Sterling's forward premium widened to 3 1/16% and the covered differential remained at $\frac{1}{4}\%$ in favour of London.

The growing threat to Poland and the coincidental increase in the Fed Funds rate in New York combined to take the dollar much higher in the early part of the week but both these factors were subsequently reversed. As a result, the dollar, after reaching DM 2.15 $\frac{1}{2}$, closed only 1% firmer at 2.1185 after sales of \$30mn. by the Bundesbank. In EMS, the pressure on the Belgian franc (34.61) eased a little and it closed only 1% distant from the mark, after sales equivalent to \$365mn., mostly again in Deutschmarks. Support for the lira (1056.35) diminished to \$100mn. and it finished only 7/16% below the mark. The French continued to provide regular support in marks (totalling \$165mn. equivalent) for their franc (5.0007) although it remained in second place in the arrangement. Ireland's balance of payments problems were reflected in the sale of \$125mn. in support of the punt (1.7255). Elsewhere, the Swiss franc (1.9284) improved to 0.91 against the mark but the yen fell a further $\frac{1}{2}\%$ to 212.98. The Swedish crown continued to firm and the Riksbank bought a further \$170mn.

Gold was active. The first fixing was at \$517 but, as the threat to Poland grew, the price rose sharply on Monday to fix at \$534.25 in the morning. Then, as the tension eased, the price dropped fairly quickly to end at \$508.50, \$6 lower over the week.

8th April 1981.

TRS

LAMB.

RATES, ETC.

10.15 a.m.

10.15 a.m.

2nd April

9th April

2.2390

£/\$

2.1940

100.1

Effective exchange rate index

99.2

1 15/16% pre.

Forward 3-months

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

14 $\frac{1}{2}$ %

Euro-\$ 3-months

15 9/16%

1/16% pre.

I.B. Comparison

1/16% pre.

2.0960

\$/DM

2.1382

4.69 $\frac{1}{2}$

£/DM

4.69 $\frac{1}{8}$

11.08

£/FF

11.07

212.62

\$/Yen

213.60

\$517

Gold

\$511

1.9130

\$/S.Fc.

1.9470

4.28 $\frac{3}{8}$

£/S.Fc.

4.27 $\frac{1}{8}$