

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 29th April 1981

After a rather lacklustre start, a further rise in US interest rates brought some colour to the exchange markets in the latter part of the week. The dollar strengthened sharply against all currencies except the yen, surpassing February's highs in some European centres. Sterling weakened with the other European currencies and the ERI fell 0.8 to 98.9.

Sterling was not a particularly active market for most of the week and no large transactions in either direction were seen. For most of the week, despite persistent commercial buying, the rate fell back as the dollar's advance gathered momentum. Sterling closed in New York on Wednesday night at 2.1815, having previously touched 2.1955 as the dollar weakened briefly. On Thursday the pound opened in London at 2.1830 and traded $\frac{1}{2}$ cent either side of this level throughout the day reaching a high of 2.1855 in the afternoon. Overnight selling in New York and also from the Far East caused the rate to soften on Friday and it closed at 2.1695 in London that evening. Following the weekend, the dollar strengthened steadily as Fed Funds returned to the 18% level and speculation grew that the Fed had tightened monetary policy. Although some steady commercial demand for sterling was seen throughout the latter part of the week, the rate eased back, falling to a low of 2.1380 on Wednesday morning as the dollar set new highs in some European centres. The rate ended the period at 2.1455, a loss of $3\frac{1}{2}$ cents over the week. Sterling was a touch firmer on the Continent closing at 4.73 $\frac{1}{2}$ in Germany, 4.32 $\frac{1}{2}$ in Switzerland and 11.23 $\frac{1}{2}$ in France. Against the ECU sterling rose to a premium of 1 $\frac{1}{16}$ % over the notional central rate. Three-month Euro-dollar rates rose $\frac{3}{8}$ % over the week but sterling's forward premium widened to 4 $\frac{3}{8}$ % and interest parity prevailed.

Higher US interest rates, including a $\frac{1}{2}$ % rise in prime rates to 18%, caused the dollar to strengthen sharply in all centres. Most of the major European countries provided some support for their currency but there was no US intervention, in keeping with the Administration's new policy that the Fed will intervene only in exceptional circumstances. The deutschemark fell $1\frac{1}{8}$ % over the week to 2.2070, after sales of \$43mn. EMS was relaxed with the punt (1.6570) closing at the bottom of the band only 1 $\frac{9}{16}$ % below the deutschemark after sales of \$10mn. The lack of tension in the arrangement enabled the Belgians to reduce both discount and Lombard rate by 1%, for the second time in the month. The narrow lead for Giscard in the first round of the French election weakened the French franc (5.2350) in the arrangement and it fell to its lowest level for 7 years against the dollar. The Bank of France provided daily support, totalling \$330mn. and deutschemarks worth \$400mn. The lira (1098) after an all-time low of 1099.60 closed only $\frac{1}{2}$ % below the mark after sales of \$240mn. Elsewhere, the Swiss provided liquidity to their domestic market and the franc (2.0140) eased to 0.91 $\frac{1}{2}$ against the mark. The yen moved sharply against the trend strengthening particularly on Monday when the Bank of Japan bought \$34mn.; it ended the week 1% firmer at 214.42. The Swedish crown weakened as the Government coalition appeared in danger of breaking up and a bank strike commenced. Firmer US interest rates weakened the Canadian dollar and the Bank of Canada sold \$50mn. net.

Gold was weak, the price falling fairly steadily as US interest rates rose. The first fixing was at \$490.50 but following the weekend the price drifted down to \$477.25 on Wednesday afternoon, a fall of almost \$25 over the week.

29th April 1981.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
23rd April		30th April 1981
2.1843	£/\$	2.1382
99.8	Effective exchange rate index	98.8
3 15/16% pre.	Forward 3-months	4½% pre.
16¼%	Euro-\$ 3-months	16 15/16%
½% pre.	I.B.Comparison	1/16% pre.
2.1702	\$/DM	2.2167
4.74	£/DM	4.74
11.22½	£/FF	11.23½
215.57	\$/Yen	215
\$492	Gold	\$479
1.9774	\$/S.Fc.	2.0235
4.31⅞	£/S.Fc.	4.32⅞