

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 13th May 1981

The election of Mitterrand as President of France made for a hectic week in the markets. The French franc came under heavy pressure in EMS, weakening all the European currencies against the dollar. Sterling remained rather on the sidelines, easing against the dollar but firm on the continent; the ERI fell 0.4 to 98.5.

With most of the activity in the Continental currencies, trading in sterling was frequently fairly light but activity picked up towards the end of the week. After closing in New York on Wednesday night at 2.1160, sterling opened at 2.1137 in London on Thursday and traded up to 2.1141 during the afternoon on the back of some modest commercial demand. The dollar softened a little on Friday, following the release of an encouraging wholesale prices figure, and sterling moved up to 2.1182 that afternoon to close at 2.1155 in London before the weekend but it later rose to 2.1260 in New York. The election of Mitterrand caused the European currencies, led by the French franc, to weaken sharply on Monday and sterling eased back as the dollar strengthened, helped also by higher euro-dollar rates. As the dollar broke new ground in Europe, sterling fell to 2.0825 in the Far East on Tuesday morning but then settled to trade in light business around 2.09. On Wednesday, however, some sizeable commercial selling from the U.S. developed in the afternoon and the rate dipped to a 1½-year low of 2.0812 before ending the period at 2.0845. Sterling's performance was rather mixed on the Continent: it gained 1½% in France to 11.50½, was unchanged in Germany at 4.77½ but lost 1% in Switzerland to 4.31½. Against the ECU sterling's premium over its notional rate rose to 2 1/16%. Euro-dollar rates were over 1% higher over the week, three-months deposits closing at 19½%. A rather smaller rise in sterling's forward premium, to 7 5/16%, served to open up a covered differential of 3/16% against London.

Markets were unprepared for Mitterrand's win in the French Presidential election on Sunday and the French franc, which dropped very sharply as soon as business commenced on Monday, required massive support to maintain the EMS margin throughout the second half of the week. This development coupled with a further upward shift in U.S. interest rates (primes rose ½% to 19½%), caused the dollar to strengthen and set new benchmark levels in most European centres. Despite sales of \$950mn. by the Bundesbank, the deutschemark fell a further ¾% closing at 2.29 (after a low of 2.2980) but it remained at the top of the EMS. The French franc (5.5190) replaced the Belgian franc (37.36) at the bottom of the arrangement with the Bank of France selling \$1½bn.-worth of DM. The Italians sold \$250mn. and the Dutch and the Irish each sold \$50mn. Elsewhere, Switzerland seemed to be the main beneficiary of the flight of French francs and the Swiss franc (2.0705) strengthened to 0.90% against the DM, helped by a 1% increase in both discount and Lombard rates and sales of \$50mn. Japan was also reported to be a recipient of French capital but there was less evidence to substantiate this and the yen (219.64) weakened in line with the European currencies. The resignation of the Swedish government appeared to have little impact on the Swedish crown and the Riksbank bought a further \$60mn. The Canadian dollar also held up well against the U.S. dollar and the Bank of Canada provided very little net support.

For most of the week gold continued a dull market and the price moved in a narrow range. There was brief excitement on Monday after Mitterrand's election, when the metal fixed at \$501 in the morning but the higher levels could not be sustained and the price soon relaxed to around \$485. The final fixing was at \$484.25, almost unchanged over the week.

13th May 1981.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>7th May 1981</u>		<u>13th May 1981</u>
<u>2.1125</u>	£/\$	<u>2.0686</u>
<u>98.9</u>	Effective exchange rate index	<u>98.3</u>
<u>7 3/16% pre.</u>	Forward 3-months	<u>7 11/16% pre.</u>
<u>19 15/16%</u>	Euro-\$ 3-months	<u>20 1/16%</u>
<u>3/8% disc.</u>	I.B.Comparison	<u>1/16% disc.</u>
<u>2.2646</u>	\$/DM	<u>2.3047</u>
<u>4.78 3/8</u>	£/DM	<u>4.76 3/4</u>
<u>11.33 1/8</u>	£/FF	<u>11.48 5/8</u>
<u>217.05</u>	\$/Yen	<u>222.40</u>
<u>\$479</u>	Gold	<u>\$480</u>
<u>2.0656</u>	\$/S.Fc.	<u>2.0812</u>
<u>4.36 3/8</u>	£/S.Fc.	<u>4.30 1/2</u>