

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 27th May 1981

After further heavy pressure before the weekend, the French franc found calmer waters in the wake of Schmidt's promises to Mitterrand. The dollar, however, continued to strengthen, despite some easing in interest rates. Sterling was generally inactive and gained somewhat from the dollar's strength. The ERI rose from 98.5 to 98.7.

Having closed at 2.0907 in New York last Wednesday, the pound began on Thursday at 2.0895 but tended lower when the dollar was allowed to rise in Germany without obvious official interference. When nothing emerged from the Bundesbank's weekly Council meeting, the dollar scored further gains, sterling touching 2.07 later that afternoon. The French exchange control measures, announced on Thursday evening, eased the pressure for a while and sterling reverted to 2.0572 before as the dollar went into reverse. Fears of a weekend realignment in EMS, however, brought renewed turmoil that afternoon and small, persistent sellers of pounds from New York pushed the rate to 2.0572 before a sizeable commercial buyer came to the rescue. Sterling held up well to the dollar's advance on Tuesday and a range of 2.06 to 2.0730 was maintained until Wednesday afternoon when, as the dollar set new benchmarks, the rate dropped to 2.0570, its lowest level for 18 months, before closing at 2.0585. The pound lost  $\frac{3}{8}\%$  to the recuperant French franc (11.44 $\frac{1}{2}$ ) but put on  $1\frac{1}{2}\%$  in both Switzerland (4.30) and Germany (4.83 $\frac{1}{2}$ ). Against the ECU sterling's premium over its notional central rate rose to 2 $\frac{1}{2}\%$ . Three-month Euro-dollars (after technical adjustment) were around  $\frac{1}{2}\%$  easier over the week at 18 $\frac{1}{2}\%$  and sterling's forward premium narrowed in compensation to 6 $\frac{1}{2}\%$  p.a., the intrinsic premium remaining at  $\frac{3}{8}\%$ .

EMS was usually fully stretched before the weekend but on Monday the French franc was propelled into the middle of the band, which had contracted by the close to  $1\frac{1}{4}\%$  in width. The lira (1164) and the Belgian franc (38.27) were the outriders, the Belgians having announced on Wednesday a 1% reduction in both Discount and Lombard rates to 13% and 15% respectively. Before the weekend the Bundesbank bought French francs worth \$150mn. while the French sold deutschmarks worth \$1,125mn. Since then, however, the French have been able to recoup some \$40mn.-worth. Official offerings of dollars continued in size, the Dutch selling \$25mn., the Irish \$150mn., the Italians \$550mn. and the Germans \$950mn. The French franc was traded at its lowest level ever on Thursday (5.6150) before recovering to finish the week at 5.5580. The deutschmark closed at 2.3470 after a four-year low of 2.3650. The Belgian franc (38.28) and Dutch florin (2.6112) hit their lowest levels for five years, while the lira (1164 $\frac{1}{2}$ ) was dealt at its cheapest ever. Elsewhere the Swiss franc (2.0935) saw its weakest point for four years before closing at 2.0890. The Swedish krona touched a 10-year low of 4.9820 and the Japanese yen (225.22) was at its worst for 9 months before finishing at 225. The Bank of Japan sold \$20mn.

Despite some reduction in the cost of financing, gold softened progressively over the week. The final fixing, at \$466.75, was \$13 lower than the week before.

*JGH*  
27th May 1981.

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RATES, ETC.

10.15 a.m.

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<u>21st May 1981</u>		<u>28th May 1981</u>
<u>2.0900</u>	£/\$	<u>2.0654</u>
<u>98.9</u>	Effective exchange rate index	<u>98.8</u>
<u>6 13/16% p.a. pre.</u>	Forward 3-months	<u>6 1/8% p.a. pre.</u>
<u>19 1/4%</u>	Euro-\$ 3-months	<u>18 3/8%</u>
<u>1/8% disc.</u>	I.B. Comparison	<u>=</u>
<u>2.2940</u>	\$/DM	<u>2.3372</u>
<u>4.79 1/2</u>	£/DM	<u>4.82 3/4</u>
<u>11.55 5/8</u>	£/FF	<u>11.43 1/4</u>
<u>220.92</u>	\$/Yen	<u>225.12</u>
<u>\$481</u>	Gold	<u>\$473</u>
<u>2.0455</u>	\$/S.Fc.	<u>2.0835</u>
<u>4.27 1/2</u>	£/S.Fc.	<u>4.30 3/4</u>