SECRET 1981/23

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 10th June 1981

The general decline in world oil prices led to increased pressure on sterling in the early part of the week. In hectic trading the pound lost a further 10 cents against the dollar before some recovery was seen; the ERI fell 1.9 to 95.0, after 93.8 on Friday. After another volatile performance, the dollar was, on balance, little changed elsewhere.

The pressure on sterling seen in the latter part of last week continued on Wednesday night in New York, where selling by the IMM took the rate down through the psychologically important 2.00 level and it closed at 1.99 that evening. As the selling continued early on Thursday in the Far East, sterling opened in London at 1.9790 and, after touching 1.9830, again met heavy professional selling. With commercial operators also seeking to reduce their exposure to the pound, the rate fell quickly to 1.9410 before recovering slightly. On Friday, the pressure was resumed in London as European dealers sought to lighten up before the long Whitsun weekend and during the afternoon a large US commercial order to sell sterling also hit the pound. In a thin market sterling fell to 1.91 - its lowest level for nearly three years - before settling to close at 1.9150 before the weekend. On Monday sterling again came under attack in the Far East, where Japanese banks were prominent amongst the sellers, but in London, after some initial uncertainty when the rate touched 1.9135, it started to recover. With the dollar tending to ease generally in the wake of Friday's money supply statistics, sterling started to move up, helped by some buying from New York during the afternoon and it closed at 1.9410 that evening. The pattern was repeated again on Tuesday, with early pressure in the Far East reversed by some modest short-covering by London and New York later in the day. On Wednesday, as the dollar weakened following the threat of an embargo on Arab oil exports to the US, sterling moved up further to touch 1.97 in early business before ending the week at 1.9655. Sterling fell sharply against the Continental currencies, losing 2% to the deutschemark (4.65⅝), 2½% to the Swiss franc (4.09⅞) and 1½% to the French franc (11.06⅞). Against the ECU sterling went to a discount of 1/16% on its notional central rate. Three-month Euro-dollars were ⅜% easier over the week, closing at 17¼%. Sterling's forward premium narrowed to 4⅞% and the covered differential was ⅛% against London.

Early tightness in US interest rates eased after the weekend and, after setting new highs in the early part of the week, the dollar turned back. The threatened oil embargo contributed also to the softer tone. After a new five-year low of 2.4330 on Friday, the deutschemark improved to close little changed at 2.3690. EMS continued relaxed, only 2% wide between the Belgian franc (38.77) and the deutschemark. The French franc (5.6312) closed a little lower within the arrangement but the Bank of France was able to recoup DM worth $175mn. Otherwise the lira (1183.25) set another all-time low of 1210.25 and the Bank of Italy sold $160mn., the Dutch sold $115mn. and the Irish $110mn. Outside EMS, the Swiss franc (2.0855) touched a new four-year low of 2.1530 but held firm against the mark at 0.88. The yen (225.60) was almost unchanged over the week, with the Bank of Japan selling $30mn.

Gold was mostly a rather quiet market. The first fixing was at $463.75 but the price rallied briefly on Monday to fix at $473.50 in the afternoon following reports of the Israeli attack on Iraq's nuclear establishment. The final fixing was at $465.25, $10 lower over the week.

10th June 1981.

TRS

RATES, ETC.

10.15 a.m.		10.15 a.m.
4th June		11th June
1.9425	£/$	1.9440
94.2	Effective exchange rate index	94.4
5⅜% p.a. pre.	Forward 3-months	5% p.a. pre.
18⅜%	Euro-$ 3-months	17⅝%
¼% disc.	I.B.Comparison	1/16% disc.
2.3890	$/DM	2.3975
4.64	£/DM	4.66
10.97	£/FF	11.06
225.90	$/Yen	225.65
$463	Gold	$463
2.1190	$/S.Fc.	2.1095
4.11⅝	£/S.Fc.	4.10