

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 24th June 1981

In quiet and usually thin markets, the see-saw movement of US interest rates once again dominated the exchanges, although the news late on Tuesday of the inclusion of Communists in Mitterrand's government briefly overrode these considerations. Trading in sterling was modest and the ERI ended the week unchanged at 95.6.

Apart from brief bouts of selling pressure on Thursday and Wednesday sterling remained on the sidelines this week. Having been bid up to 2.0015 by the Chicago IMM on Wednesday evening, the pound later fell back to close at 1.9952 in New York as the dollar strengthened substantially in reaction to very tight money market conditions on make-up day. It opened on Thursday at 1.9850 against an even firmer dollar and traded quietly around this level until selling pressure from New York quickly knocked a cent off the rate. With money remaining tight in New York and Euro-dollar rates continuing to rise, sterling retreated further against the dollar touching 1.9603 on Friday. It subsequently reached 1.9675 but eased back to close at 1.9632. Later on Friday the dollar weakened sharply in New York in the face of unexpectedly low money supply figures and sterling opened nearly 2½ cents stronger on Monday; but Euro-dollar rates soon picked up again and the rate fell back to 1.9795. However, Federal Funds later eased in New York and the pound closed there at 2.0032. On Tuesday morning the dollar continued weaker and sterling touched 2.01 before falling back to 1.9980 as the dollar came into demand in the early afternoon. However money markets opened softer than expected in New York and the pound recovered to close at 2.0014 in London. The dollar later picked up again on concern about the inclusion of Communist Ministers in Mitterrand's government and sterling fell back to close at 1.9810 in New York. Wednesday morning saw the rate moving comfortably between 1.9870 and 1.9927 until professional selling out of Switzerland drove the pound down to 1.9775 before closing at 1.9858, a fall of 1¾ cents over the week. Sterling gave a mixed performance in Europe, rising by ¼% in Germany to 4.69½ and ¼% in France to 11.21½, but falling by 1% in Switzerland to 4.02. Three-month Euro-dollars were up by 7/16% over the week closing at 17 7/16%. Sterling's forward premium widened to 5 5/16% p.a. and the covered differential was 1/16% against London.

Short-term US interest rates were extremely volatile over the week with Federal Funds ranging between 29% on Wednesday night and 15½% on Tuesday when the Fed intervened to drain money from the market. The reductions in prime rates seen last week were reversed with most primes now back at 20%. The EMS was weaker against the dollar and closed 2% wide between the deutschemark (2.3645) and the Belgian franc (38.68). The French franc (5.6475) came under pressure after the announcement that the new cabinet would include Communists and the Bank of France sold \$36mn. and \$167mn.-worth of deutschemarks. The Belgians sold \$104mn. and \$22mn.-worth of deutschemarks and the Irish sold \$52mn. but the Italians bought \$56mn. and the Danes \$54mn. Outside the EMS the Swiss franc (2.0240) strengthened further to 85% against the deutschemark and the yen eased back to 222.42.

Gold once again traded in a very narrow range. The first fixing was \$460.25 and the price fell steadily to fix at \$457.75 on Friday morning. Thereafter it picked up again as dollar interest rates eased and the Iraqis threatened an oil embargo on the US, reaching \$466.50 before slipping back to close at \$462, a rise of only 25 cents on the week.

24th June 1981.

CFS

CR.

JH

RATES, ETC.

10.15 a.m.

10.15 a.m.

18th June

25th June

1.9860

£/\$

1.9695

95.5

Effective exchange rate index

95.1

5% p.a. pre.

Forward 3-months

5 $\frac{3}{8}$ % p.a. pre.

17 $\frac{5}{8}$ %

Euro-\$ 3-months

18 5/16%

+ 1/16% pre.

I.B. Comparison

$\frac{1}{2}$ % disc.

2.3615

\$/DM

2.3745

4.69

£/DM

4.67 $\frac{3}{8}$

11.16

£/FF

11.20 $\frac{1}{2}$

221.77

\$/Yen

224.40

\$460

Gold

\$454.75

2.0615

\$/S.Fc.

2.0340

4.09 $\frac{3}{8}$

£/S.Fc.

4.00 $\frac{3}{8}$