FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 1st July 1981

A widening of the uncovered differential between UK and US interest rates sparked off further heavy selling of sterling during the latter part of the week. In active and nervous trading sterling fell sharply against all currencies; the ERI dropped 2.5 to 93.1, the lowest level since the index was rebased. Sustained by higher interest rates, the dollar moved back towards its best levels in other centres.

Sterling was an extremely nervous market throughout the week and widespread commercial and professional selling was seen at times. The pound lost 1½ cents in New York on Wednesday night to close at 1.9707 against an otherwise unchanged dollar, opened in London on Thursday at 1.9705 but quickly ran into some European selling and fell a further cent before some recovery occurred. As profits were taken, the rate rose briefly to touch 1.9735 during the afternoon but such levels were not subsequently seen. That night the dollar strengthened in New York and sterling shed over three cents, opening at 1.9405 on Friday when it came under immediate selling pressure from Switzerland. Despite some considerable commercial demand later in the morning, there was a steady stream of sellers into any strength and the rate fell to 1.9355 before the dollar itself turned, allowing an improvement to 1.9487 before the weekend. Although the dollar opened weaker on Monday following another set of subdued money supply figures, sterling was only marginally firmer and, again, early Far Eastern and Swiss selling was the main feature but after this was absorbed the rate traded up to 1.9555. In a quiet market on Tuesday, sterling gradually edged lower against a firmer dollar until in late business a large seller entered the market. Sterling then fell quickly to 1.9265 that evening in London and lost a further cent in New York as the selling continued. On Wednesday sterling was a highly active and nervous market with large orders in both directions being seen. Against a background of heavy professional and commercial selling, particularly against Continental currencies, and despite the presence of a very large commercial buying order, sterling fell steadily over the day to close at a three-year low of 1.9045, almost 10 cents down over the week. Sterling fell sharply on the Continent as well, losing 2% against the deutschemark (4.60⅛), 1⅝% against the Swiss franc (3.95⅜) and 2½% against the French franc (10.94⅞). Against the ECU sterling fell to a discount of 1⅛% on its notional central rate. Three-month Euro-dollars were 7/16% higher over the week closing at 17⅞%. Sterling's forward premium widened to 5¾% and the covered differential moved to 1/16% in favour of London.

Although the money supply figures announced on Friday were encouraging and the economic indicators published during the week showed further signs of weakening in the economy (leading indicators in May fell by 1.8%), US short-term interest rates were obstinately firm and the dollar strengthened, moving back to close to its best levels. It gained 2% in Germany to close at DM 2.4160 and was similarly firm in other centres. In EMS the Belgian franc (39.51) came under pressure again and it closed 2% below the deutschemark after sales of $160mn. and DM and Swiss francs worth $200mn. The French franc (5.7462) closed a little below half-way in the band, with the Bank of France selling $40mn. Elsewhere the Swiss franc (2.0760) eased to 0.85⅞ against the deutschemark and the yen weakened with the other major currencies falling 2½% to 228.20. The Swedes were able to buy $80mn.

Gold was a weak and nervous market. The first fixing was at $454.50 but as the silver price fell on Friday gold was sold down through the $450 level, falling steadily thereafter. The final fixing was at $422, a drop of $40 over the week.

1st July 1981.
TRS

RATES, ETC.

10.15 a.m.		10.15 a.m.
25th June		2nd July
1.9695	£/$	1.8885
95.1	Effective exchange rate index	92.3
5⅝% p.a. pre.	Forward 3-months	5¾% p.a. pre.
18 5/16%	Euro-$ 3-months	18½%
¼% disc.	I.B.Comparison	1/16% disc.
2.3745	$/DM	2.4145
4.67⅝	£/DM	4.56
11.20⅛	£/FF	10.84⅝
224.40	$/Yen	227.45
$454.75	Gold	$409
2.0340	$/S.Fc.	2.0750
4.00⅝	£/S.Fc.	3.91⅞