

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 22nd July 1981

In active trading the exchange markets reverted to being dominated by interest rate movements. Higher Euro-dollar rates helped the dollar to regain about half of last week's losses. UK interest rates were similarly firmer, but sterling remained a nervous and vulnerable market. The ERI fell 0.6 to 91.8, after a new low of 91.5 at the opening on Wednesday.

Although at times a good two-way market, sterling was generally rather weak and periodic bouts of selling pressure were a feature of most days. During a volatile evening in New York on Wednesday sterling was quoted up to 1.8975 but failed to breach 1.90 and closed at 1.89. The rate opened in London at 1.8810 and initially rose, reaching 1.8855 in early business when a large commercial selling order entered the market. Although this was partially absorbed by some good buying, further selling from the US during the afternoon gave sterling a generally easier tone. On Friday, however, firmer sterling interbank rates and rumours of an increase in a clearer's base rate brought some improvement and after opening at 1.8690 the rate rose to close at 1.88 before the weekend against an otherwise little changed dollar. Following the large increases in the US money supply announced on Friday, sterling opened almost a cent lower on Monday and in a very quiet market traded narrowly throughout the day ending a little weaker at 1.8710. Some modest selling in New York that night took the rate down to 1.8547, however, and, as the pressure intensified in London next morning with widespread European selling, the rate fell to a new three-year low of 1.8385, before a firmer tendency in sterling interbank brought about some modest recovery. The slightly better tone was continued on Wednesday when, after some early Swiss selling had been absorbed, short-covering by London banks and further increases in sterling rates caused the pound to rise to 1.86 before the close at 1.8570. Sterling lost a little further ground on the Continent, slipping $\frac{1}{2}\%$ in Germany (4.54%) and $\frac{1}{4}\%$ in both Switzerland (3.89%) and France (10.80%). Against the ECU sterling moved to a discount of $2\frac{1}{2}\%$ on its notional central rate. Three-month Euro-dollars were 1% firmer over the week at $18\frac{1}{2}\%$. With sterling's forward premium widening a little and higher interbank sterling rates the covered differential increased to $3/16\%$ in favour of London.

Higher Euro-dollar rates, together with the persistence of a very tight Fed Funds market in New York, caused the dollar to firm sharply after the weekend, although it lost some of its gains on Wednesday. Over the week as a whole it was about 1% firmer in Europe where there was little attempt to resist the advance, despite rumours to the contrary. The Bundesbank sold only \$13mn. and the Deutschmark closed at 2.4465. EMS was quiet, the Belgian franc (40.02) 2% distant from the mark after support equivalent to \$70mn. Both the French franc (5.8187) and the guilder (2.7252) also required modest support, amounting to the equivalent of \$60mn. and \$120mn. respectively. On the other hand, the Italians were able to recoup a further \$300mn. and the Danes \$60mn. Elsewhere, the Swiss franc (2.0997) was a little firmer against the mark but the yen (234.72) continued weak and the Bank of Japan supported actively, selling a further \$500mn. For the first time for many weeks the Canadian dollar came under pressure and the Bank of Canada sold \$300mn.

The gold price moved in a narrow range throughout the week. The first fixing was at \$417.25 but the price had eased to \$406 by Tuesday afternoon as the dollar strengthened generally. Some recovery on Wednesday afternoon, to \$411.25, meant that the metal was almost unchanged on the week.

22nd July 1981.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>16th July</u>		<u>23rd July</u>
<u>1.8802</u>	£/\$	<u>1.8675</u>
<u>92.1</u>	Effective exchange rate index	<u>92.0</u>
<u>4 11/16% p.a. pre.</u>	Forward 3-months	<u>4 9/16% p.a. pre.</u>
<u>18 5/16%</u>	Euro-\$ 3-months	<u>19 1/16%</u>
<u>1/16% disc.</u>	I.B.Comparison	<u>parity</u>
<u>2.4143</u>	\$/DM	<u>2.4315</u>
<u>4.54</u>	£/DM	<u>4.54</u>
<u>10.78¼</u>	£/FF	<u>10.81½</u>
<u>231.05</u>	\$/Yen	<u>233.57</u>
<u>\$415</u>	Gold	<u>\$410</u>
<u>2.0765</u>	\$/S.Fc.	<u>2.0944</u>
<u>3.90¾</u>	£/S.Fc.	<u>3.91½</u>