

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 28th July 1981

The domination of the markets by U.S. interest rates continued. Sharp declines in the U.S. money supply, reversing the increases of the previous week, led on Monday to some premature rejoicing at the prospect of lower U.S. interest rates but by the close the dollar had recovered all its composure. For the most part, sterling was not the centre of attention and it traded rather narrowly; the ERI rose 0.3 to 92.1.

Sterling was a less active market this week and although there were periods of selling pressure the atmosphere was rather calmer than of recent. Sterling closed a quiet night in New York on Wednesday at 1.8610 but, as the dollar weakened in the Far East, it opened in London at 1.8650 and quickly traded up to 1.87. Some selling by London banks then commenced and, as the dollar recovered generally, sterling fell back to touch 1.8545 that afternoon. Early selling from Switzerland on Friday together with commercial sales against deutschemarks in London, kept sterling under pressure during the morning, when the rate fell to 1.8525, but as Fed Funds and Euro-dollar rates eased temporarily during the afternoon it recovered to end comfortably at 1.8625 before the weekend. Following the unexpectedly sharp declines in the U.S. money supply figures announced on Friday evening the dollar opened much weaker on Monday and sterling traded up to 1.8795 by mid-morning. However, the improved money supply was not followed by any easing in the Fed Funds market which remained tight and, as the dollar recovered generally that afternoon and on Tuesday, sterling eased back to trade between 1.85½ and 1.86½ for most of the remainder of the period. The rate ended at 1.8595, almost unchanged on the week. Sterling's fortunes on the continent were a little mixed: it was a touch firmer in Germany (4.54%), gained over 1% in Switzerland (3.94%) but was a little weaker in France (10.79%). Against the ECU sterling's discount on its notional central rate was unchanged at 2½%. Three-month Euro-dollars were also unchanged over the week at 18½%. Sterling's forward premium narrowed a little and the intrinsic discount moved to 5/16%.

The large decline in the money supply (M1B - \$5.9bn.) caused the dollar to weaken sharply on Monday but as the reduction was not translated into lower interest rates it soon recovered lost ground, ending generally rather firmer over the week. The Bundesbank sold just \$30mn. and the deutschemark closed at 2.4460. By the close EMS was under no strain, only 1 13/16% wide between the Belgian franc (39.94) and the mark but the Belgians provided some support; which they later largely recouped, for their currency in advance of the weekend. The French franc closed at 5.8070. The Italians bought \$160mn. Elsewhere the Swiss franc (2.12) weakened sharply on Monday as operators took advantage of the temporarily softer dollar to move funds into the U.S.; it fell to 0.86½ against the DM. The yen (237.07), too, fell by 1% but the Bank of Japan provided only \$60mn. in support. Concern about inflation and the continued high level of U.S. interest rates put the Canadian dollar under heavy pressure and it fell to a 40-year low against the U.S. dollar despite support of \$870mn. by the Bank of Canada.

Gold was steady around the \$410 level throughout the early part of the week but the price fell on Monday as interest rates failed to ease. The final fixing was at \$401.50, a fall of \$10 over the week.

28th July 1981

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>23rd July 1981</u>		<u>30th July 1981</u>
<u>1.8675</u>	£/\$	<u>1.8520</u>
<u>92.0</u>	Effective exchange rate index	<u>92.2</u>
<u>4 9/16% p.a. pre.</u>	Forward 3-months	<u>4 7/16% p.a. pre.</u>
<u>19 1/16%</u>	Euro-\$ 3-months	<u>19 1/16%</u>
<u>parity</u>	I.B. Comparison	<u>1/16% disc.</u>
<u>2.4315</u>	\$/DM	<u>2.4640</u>
<u>4.54</u>	£/DM	<u>4.56½</u>
<u>10.81¼</u>	£/FF	<u>10.83</u>
<u>233.57</u>	\$/Yen	<u>238.90</u>
<u>\$410</u>	Gold	<u>\$402</u>
<u>2.0944</u>	\$/S.Fc.	<u>2.1345</u>
<u>3.91¼</u>	£/S.Fc.	<u>3.95¼</u>