

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 12th August 1981

Even by recent standards, the exchanges were exceptionally nervous and volatile. Increased tension around Poland and France's problems with Iran caused the dollar to surge to new highs on Monday. A simultaneous, but gradual, decline in US interest rates was virtually ignored until Wednesday when, spurred by fears that the peak had been seen, dealers scrambled to move out of the dollar, which fell precipitately in all centres. Sterling was a little on the sidelines, moving with the Continental currencies against the dollar. The ERI was unchanged at 91.0 after a new low of 89.7 at noon on Monday.

Sterling closed a quiet evening in New York on Wednesday at 1.81 and opened in London on Thursday at 1.8068. After moving up to 1.8090 in early business, the rate declined steadily thereafter, falling to 1.7930 by mid-afternoon. Although some recovery occurred that night in New York, when the dollar resumed its upward path on Friday, sterling fell progressively lower, reaching 1.7810 during the afternoon. At this time strong commercial demand emerged and the rate recovered to close at 1.7945 before the weekend. On Monday, with the dollar rising further on fears over Poland, sterling opened two cents lower and then gave ground as the dollar's advance continued. Under pressure of professional selling the rate fell to a new four-year low of 1.7565 shortly after mid-morning but recovered, helped by some buying from the US, during the afternoon. As the dollar eased generally on Tuesday, commercial buying of sterling took the rate back to 1.77 and this trend continued at first on Wednesday. Then, as panic swept through the market that the dollar was weakening decisively, sterling was carried up to close at 1.8295, close to the high of the week. In contrast to the sharp movements against the dollar sterling was much steadier on the Continent although its fortunes were a little mixed. In Germany the pound gained  $\frac{1}{2}\%$  (4.54 $\frac{1}{2}\%$ ) but it lost  $\frac{3}{4}\%$  in France (10.73) and  $\frac{1}{2}\%$  in Switzerland (3.92 $\frac{1}{2}\%$ ). Against the ECU sterling's discount on its notional central rate narrowed to 2 $\frac{1}{2}\%$ . Three-month Euro-dollars eased to 18  $\frac{3}{16}\%$  but sterling interbank rates were also softer. Sterling's forward premium narrowed to 4  $\frac{7}{16}\%$  and the covered differential moved to 1/16% against London.

Soviet troop movements on the Polish border took the dollar to new highs on Monday but everything was reversed in chaotic conditions on Wednesday afternoon and the dollar in fact closed over 1% down on the week. There was no repeat of last week's attempt to hold the dollar down by concerted intervention, although considerable support for some currencies, particularly the French franc - around which devaluation rumours increased - was provided. The Bundesbank sold \$350mn. and the deutschemark closed at 2.4840 (after 2.5785 on Monday). On the close the EMS 2 $\frac{1}{2}\%$  band was broken with the Belgian franc (40.81) 2 $\frac{3}{4}\%$  below the mark after sales of \$250mn. equivalent. For most of the week the French franc was under severe pressure and the Bank of France sold a total of \$1.2bn. However, as the dollar fell on Wednesday the franc rebounded to close at 5.8650. The Italians bought \$250mn. Outside EMS the Swiss franc improved to 2.1470. The yen gained over 5% during the week to close at 228.40. Pressure on the Canadian dollar eased but the Swedes sold \$115mn. to support their crown.

Activity in the gold market increased as tension over Poland grew and the dollar fell back from its highest levels. A strong rally commenced on Tuesday and the price ended \$417.50, \$25 higher over the week.

12th August 1981.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>6th August 1981</u>		<u>13th August 1981</u>
<u>1.8045</u>	£/\$	<u>1.7965</u>
<u>90.8</u>	Effective exchange rate index	<u>90.3</u>
<u>4½% p.a. pre.</u>	Forward 3-months	<u>4½% p.a. pre.</u>
<u>19 3/16%</u>	Euro-\$ 3-months	<u>18½%</u>
<u>parity</u>	I.B. Comparison	<u>1/16% disc.</u>
<u>2.5093</u>	\$/DM	<u>2.5270</u>
<u>4.52½</u>	£/DM	<u>4.54</u>
<u>10.80</u>	£/FF	<u>10.89½</u>
<u>239.30</u>	\$/Yen	<u>231.95</u>
<u>\$395</u>	Gold	<u>\$406</u>
<u>2.1790</u>	\$/S.Fc.	<u>2.1650</u>
<u>3.93½</u>	£/S.Fc.	<u>3.88½</u>