

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 2nd September 1981

Lacking any decided trend, exchange markets moved in a narrower range this week, taking their tone largely from American domestic debt markets as dealers sought to divine the future course of the dollar. Sterling met a series of sizeable selling orders which inevitably tended to exert downward pressure. The ERI fell from 91.4 to 90.8.

Having closed rather firmer at 1.8430 in New York last Wednesday, sterling was marked down to 1.8355 on Thursday morning, as sentiment was affected by news that the Nigerians were offering oil at a \$4 discount. A trading range - which persisted for the most part throughout the week - was soon established around 1.84 and the pound then moved largely in response to the dollar's fluctuations. Late that day the proceeds of a recent sterling loan were taken to a thin US market, forcing sterling down to close there at 1.8310. The sale was completed in Europe on Friday and kept the rate depressed for much of the day but, with Federal funds easing, sterling was restored to 1.8470 that afternoon. Following announcement of a substantial reduction in the US money supply, the pound was marked up to 1.8580 on Monday but, as American domestic markets turned sour, the dollar quickly recovered and sterling receded to 1.8347 by the close in New York. On Tuesday Saudi suggestions of continuing softness in oil prices sparked heavy professional selling of pounds and the rate dropped to 1.8292 but, with the dollar easier on Wednesday, the pound finished the week at 1.8418 despite further commercial and professional sales. Sterling was substantially lower against EMS currencies, falling 1½% against the deutschemark (4.49%) and 1¼% against the French franc (10.75½). It gained ¾%, however, on the Swiss franc (3.96½). Against the ECU sterling's discount on its notional central rate widened to 3%. With Federal funds generally easier, three-month eurodollars closed ¾% lower at 18¼% while comparable sterling deposits were ½% softer. The forward premium, however, narrowed by over 1% to 4½% p.a. so that the covered differential moved to a small intrinsic discount.

There was little economic news to move the dollar. By the end of the week, however, signs that the Administration were considering further large cuts in expenditure brought a renewed downward trend and against the deutschemark the dollar closed some 1¼% easier at 2.4400. The Bundesbank nonetheless sold about \$50mn. The Swiss franc weakened sharply on Monday prompting increases in both Discount and Lombard rates by 1% to 6% and 7½% respectively on Tuesday. The franc eased further to 0.88½ to the deutschemark but was unchanged on the dollar at 2.1507. EMS was over 2% wide throughout the week and closed fully-stretched between the deutschemark and Belgian franc (40.02). The Belgians sold \$100mn. (mostly in DM) and the Irish \$30mn. while the Italians bought \$150mn. and the Danes \$50mn. The French franc (5.8395) again improved after the weekend and the French recouped \$100mn. and deutschemarks equivalent to \$150mn. The Japanese yen finished the week slightly firmer at 229.65. The Japanese sold \$30mn. The Swedes spent a further \$100mn. but the Canadians recouped \$400mn. as their dollar improved sharply to 119.50 following agreement between the Government and the Province of Alberta on oil pricing.

After dipping briefly below \$410 in New York on Thursday, gold was bid up to \$420 and traded comfortably around \$425 until Wednesday, when the dollar's softer tone brought a further advance. The final fixing was at \$430, a gain of \$16 on the week.

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2nd September 1981

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>26. 8.81</u>		<u>3. 9.81</u>
<u>1.8415</u>	£/\$	<u>1.8487</u>
<u>91.4</u>	Effective exchange rate index	<u>90.8</u>
<u>5½% p.a. pre.</u>	Forward 3-months	<u>4 13/16% p.a.</u>
<u>19 1/16%</u>	Euro-\$ 3-months	<u>18 11/16%</u>
<u>3/16% pre.</u>	I.B.Comparison	<u>=</u>
<u>2.4665</u>	\$/DM	<u>2.4208</u>
<u>4.54½</u>	£/DM	<u>4.47½</u>
<u>10.86½</u>	£/FF	<u>10.74½</u>
<u>230.60</u>	\$/Yen	<u>229.50</u>
<u>\$415</u>	Gold	<u>\$436.50</u>
<u>2.1417</u>	\$/S.Fc.	<u>2.1242</u>
<u>3.94½</u>	£/S.Fc.	<u>3.92½</u>