

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 23rd September 1981

Speculation on a weekend realignment in the EMS and a reduction in US interest rates made for a week of hectic activity on the exchanges. As the rush into the DM gathered pace the dollar plummeted but the absence of a mark revaluation and the Fed's modest 1% cut in the surcharge on the discount rate disappointed the market and by the close the DM had given up much of its earlier gains. Sterling's slide against the Continental currencies continued and the ERI fell 1.8 to 86.8 after 86.3 at noon on Monday.

In at times very wild markets, sterling was subject to periodic bouts of heavy selling particularly against the Continental currencies. Some steady official support and, by the end of the week, a sharply narrower uncovered differential between sterling and US interest rates combined to produce a temporarily firmer tone. After toughing 1.8650 in New York on Wednesday, sterling closed at 1.8550, opening at 1.8517 in London on Thursday. Having moved up to 1.8572 in the early afternoon as the dollar fell, sterling then came under pressure and retreated to 1.8365. With the dollar initially rather firmer on Friday, sterling dropped to 1.8232 before a resumption of the rush into the mark caused the dollar to weaken again. Sterling rose a little but with some sizeable commercial selling against marks it failed to keep pace with the Continental currencies, closing at 1.8320 before the weekend. A distinctly nervous tone was evident at the opening on Monday when widespread professional selling took the rate back to 1.83 against a weaker dollar. However, as the Bundesbank intervened to steady the dollar and a sharp upward shift occurred in sterling interbank rates the nervousness gradually disappeared and helped by some modest commercial demand the rate returned to 1.84. With Euro-dollar rates easier on Tuesday following the cut in the Fed's surcharge, sterling was again in some demand and in much more stable markets the rate traded between 1.83 and 1.84½ but recovered a little against the Continental currencies. The pattern was similar on Wednesday when sterling gave ground only slowly against a stronger dollar, easing to 1.8225 shortly before the close at 1.8235. The pound lost further ground against the Continental currencies although it closed above its worst levels; it shed 2¾% against the deutschemark to 4.16½ (after 4.08½ on Monday), 3¾% against the Swiss franc to 3.55½ and 3¾% against the French franc to 9.90½. Against the ECU sterling's discount on its notional central rate widened to 9%. Three-month Euro-dollars were ¾% easier at 16½% and with sterling interbank rates rising by ¾% sterling's forward premium narrowed further to 1¾%. The covered differential widened to 7/16% in favour of London.

US interest rates moved lower with the cut in the surcharge and a further ½% fall in primes but the pace of the decline disappointed the market and although the dollar see-sawed violently it ended only 1½% lower at DM 2.2840 (after 2.2265 on Monday). The Bundesbank bought \$340mn. but despite the exceptional volatility in the market there continued to be no intervention by the Fed. Immense pressure in EMS before the weekend had disappeared by the end of the week when the Irish punt (1.5982) was at the bottom, 1¾% lower than the mark. Huge amounts of support were, however, necessary to maintain margins on Thursday and Friday when the French sold \$1.6bn. to support the franc (5.43), the Belgians \$350mn., the Italians \$290mn., the Danes \$250mn. and the Irish \$200mn. Elsewhere, the Swiss franc (1.9490) improved further to 0.85½ against the mark but the yen eased to 227.17. The Swedes were able to buy \$300mn. and the Canadians to add some \$200mn. to their reserves.

The relative weakness of the dollar and the easing of US interest rates led to increased activity in the gold market but the price failed to break convincingly into higher ground. From the first fixing level of \$456 the price rose to \$463.50 at the afternoon fixing on Monday but as the dollar regained some of its earlier levels the price later eased back. The final fixing was at \$456.50, \$7 higher over the week.

23rd September 1981.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>17th September 1981</u>		<u>24th September 1981</u>
<u>1.8520</u>	£/\$	<u>1.7930</u>
<u>88.4</u>	Effective exchange rate index	<u>86.3</u>
<u>2½% p.a. disc.</u>	Forward 3-months	<u>1⅞% p.a. disc.</u>
<u>17⅞%</u>	Euro-\$ 3-months	<u>17½%</u>
<u>⅞% disc.</u>	I.B.Comparison	<u>⅞% disc.</u>
<u>2.2935</u>	\$/DM	<u>2.3265</u>
<u>4.24¼</u>	£/DM	<u>4.17⅞</u>
<u>10.20¼</u>	£/FF	<u>9.94</u>
<u>226.32</u>	\$/Yen	<u>228.62</u>
<u>\$456</u>	Gold	<u>\$450</u> !
<u>1.9690</u>	\$/S.Fc.	<u>1.9817</u>
<u>3.65⅞</u>	£/S.Fc.	<u>3.55¼</u>