

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 7th October 1981

The EMS realignment, the assassination of President Sadat and the belated but long expected downturn in US interest rates made for another dramatic and volatile week on the exchanges. Except for a brief period in the immediate aftermath of the assassination, the dollar was generally weaker. Sterling was a nervous market at times but encountered good demand towards the end of the week. The ERI rose 1.0 to 88.4.

The 2% rise in the clearing banks' base rates on Thursday morning, followed by a steady fall in Euro-dollars rates, meant that by the end of the week on an uncovered basis, sterling rates were higher than comparable dollar rates. Sterling had a firm tone at the start of the week and from an opening level of 1.8117 (two points higher than Wednesday's New York close) it moved up quickly on strong buying before settling to trade around 1.83. However, as the dollar fell sharply on Friday on growing expectations of a weekend revaluation of the deutschemark, the atmosphere changed and sterling was sold heavily against marks by professional operators, the rate falling against a much weaker dollar to close at 1.8250 before the weekend. Following the EMS realignment, sterling opened at 1.83 on Monday and initially was a very nervous market despite a generally softer tone for the dollar. Demand from the US was, however, seen during the afternoon and as the dollar itself eased further on lower interest rates, sterling moved up steadily to close at 1.8512 that evening. The buying continued early the next day when sterling reached 1.8660 but the higher levels attracted some professional selling and the rate was easing back before the news of the assassination of President Sadat. In extremely nervous markets, while the dollar rapidly regained much of its earlier losses, sterling held very steady around the 1.84 level, falling at worst to 1.8390. Rather calmer conditions prevailed on Wednesday when a further fall in Euro-dollar rates took the dollar back to its weakest levels. Although sterling moved up to 1.8675 it failed to keep pace with movements on the Continent, closing at 1.8620. The weekend changes in the EMS meant that sterling's performance in Europe was a little mixed. It lost 1½% against the deutschemark (4.13½) and 2% against the Swiss franc (3.49½) but gained 3% against the devalued French franc (10.37½). Against the ECU sterling closed at a premium of 2% over its new notional central rate. Euro-dollar rates fell by 1½% over the week, three-month deposits closing at 16%, below comparable inter-bank rates. With the three-month forward premium at par, the covered differential in favour of London was ½%.

The sustained decline in yields in the US domestic bond market, an easing in the Fed Funds rate to below 14% and a further ½% cut in primes all served to weaken the dollar. Over the period as a whole it lost some 4% to the deutschemark which closed at 2.2212 but there were violent fluctuations following the death of Sadat when the deutschemark fell briefly to 2.29. Nevertheless the Fed did not intervene. The mark and the guilder (2.4577), both revalued by 5½%, moved to the bottom of the realigned EMS and received support totalling \$200mn. and \$150mn. equivalent respectively. The French franc (5.5720), devalued by 3%, and the Danish crown (7.1350) were at the top of the band and the French bought DM and guilders worth \$240mn. The lira (1182.25) also devalued by 3%, however, required support totalling \$880mn. Elsewhere, the Swiss franc (1.8765) moved with the mark but the yen gained only 1½%, closing at 228.65.

7.10.81. Gold was an active market. The price, which had been rising  
TRS steadily from the \$430 level as the dollar weakened, leapt on the news  
about President Sadat, reaching \$455 outside the fixing. Although it  
then relapsed a little, the final fixing at \$445.50 was \$18 higher on  
the week.

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>30th September 1981</u>		<u>8th October 1981</u>
<u>1.8130</u>	£/\$	<u>1.8710</u>
<u>87.6</u>	Effective exchange rate index	<u>89.2</u>
<u>1 1/16% p.a. disc.</u>	Forward 3-months	<u>3/16% p.a. disc.</u>
<u>17 7/8%</u>	Euro-\$ 3-months	<u>16 3/8%</u>
<u>1/16% pre.</u>	I.B.Comparison	<u>1/16% pre.</u>
<u>2.3240</u>	\$/DM	<u>2.2342</u>
<u>4.21 3/8</u>	£/DM	<u>4.18</u>
<u>10.10 3/8</u>	£/FF	<u>10.49 1/8</u>
<u>233.57</u>	\$/Yen	<u>230.20</u>
<u>\$433</u>	Gold	<u>\$440</u>
<u>1.9740</u>	\$/S.Fc.	<u>1.8932</u>
<u>3.57 7/8</u>	£/S.Fc.	<u>3.54 1/8</u>