

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 21st October 1981

A rise in US short-term interest rates and persistent rumours of possible hostilities between Egypt and Libya made for an active and nervous week on the exchanges. The dollar strengthened sharply against all currencies. Sterling came under pressure at times but ended the week little changed on the Continent; the ERI fell 0.6 to 87.6.

Sterling was a very active two-way market throughout the week. Some sizeable transactions in both directions were observed; in particular, the conversion of a large sterling borrowing placed some pressure on the rate in the middle of the week. Following a New York close on Wednesday night at 1.8610, sterling opened in London on Thursday at 1.8612 and moved up to 1.8675 on some modest buying from Europe. As the dollar strengthened during the afternoon when the possibility of a US military presence in Egypt was mooted, sterling fell back with the Continental currencies to close at 1.8490 in London that evening. However, heavy selling by the IMM in Chicago later that night took sterling back to 1.8220 and although the rate recovered a little by the next morning, when it touched 1.8465, sizeable commercial selling was soon encountered. With US operators again selling sterling, the rate fell back throughout the afternoon to close at 1.8267 in London before the weekend. On Monday, against a generally easier dollar, sterling was in some demand and moved up to 1.8460 in mid-morning despite the entry into the market of the large conversion operation. The effect on the rate of this transaction was seen on Tuesday with, in addition widespread professional and commercial selling of sterling as dealers anticipated the release of the September trade figures. These did nothing to improve the tone of sterling and as the dollar strengthened generally the rate fell back to 1.8280 that evening. Rumours on Wednesday of the outbreak of hostilities between Egypt and Libya contributed to a very firm dollar but sterling eased back only slowly to close at 1.8180. The pound was a touch stronger on the Continent, closing at 4.12½ in Germany, 10.35½ in France and 3.44½ in Switzerland. Against the ECU sterling's premium on its notional central rate was 1 11/16%. Three-month Euro-dollars were ¼% higher over the week at 16¼% but the forward premium narrowed to ¾% and the covered differential in favour of London widened to ¼%.

Federal Funds traded above 15% for much of the week, keeping US interest rates very firm. At the same time there were widespread rumours of increasing tensions between Egypt and Libya and this development helped the dollar against the Continental currencies. The Bundesbank intervened on most days to support the deutschemark, selling \$200mn. and French francs worth \$270mn. to maintain EMS margins. Over the week as a whole the mark lost over 2% closing at 2.2683. The French franc (5.5975) and the Danish crown (7.2750) remained close together at the top of the arrangement and the Bank of France bought \$190mn. and marks worth \$300mn. The Italians sold \$90mn. Elsewhere, the Swiss franc (1.8945) remained steady at 0.83½ against the mark after purchases of \$50mn. The yen remained weak, falling by over 2% to 233.65. Following last week's discount rate cut, the Swedes supported the crown, selling \$125mn.

Gold was a dull market. The price seemed little affected by the rumours from the Middle East and merely eased back as the dollar strengthened. The final fixing was at \$429, \$15 lower over the week.

21st October 1981

TRS

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RATES, ETC.

10.15 a.m.

10.15 a.m.

15th October 1981

21st October 1981

1.8640

£/\$

1.8240

88.2

Effective exchange rate index

87.9

7/16% p.a. disc.

Forward 3-months

¼% p.a. disc.

16 1/16%

Euro-\$ 3-months

16 7/16%

1/16% pre.

I.B.Comparison

¼% pre.

2.2057

\$/DM

2.2635

4.11½

£/DM

4.12½

10.32½

£/FF

10.36

228.70

\$/Yen

233.90

\$448

Gold

\$434.50

1.8465

\$/S.Fc.

1.8900

3.44½

£/S.Fc.

3.44½