

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 18th November 1981

Activity on the exchanges picked up this week. Although the decline in US interest rates continued, the dollar's losses were fairly limited as the relative weakness of the deutschemark held back the EMS currencies. Sterling was in strong demand for portfolio investment purposes but eased back on profit-taking; the ERI rose a net 1.1 to 90.3, after 91.3 on Monday.

Sterling was very actively traded throughout the week with heavy demand seen at various times. Against a background of falling US rates and expected declines on the Continent, sterling interest rates remained relatively firm, generating substantial investment interest. From an opening level of 1.8817 in London on Thursday, sterling initially moved back to 1.8810 but soon started to rise on professional buying in London and good demand from the US, reaching 1.90 that evening. Strong buying interest, both official and commercial, continued either side of the weekend and although the dollar was generally firmer, particularly against EMS currencies, sterling continued to make gains. From a closing level on Friday of 1.9125, sterling advanced steadily on Monday reaching 1.9305 in mid-morning on the back of some large investment interest from Europe. The pound's rise on the Continent inevitably encouraged some profit-taking and, as the dollar strengthened further, sterling fell back quickly that evening falling at one time to 1.8850 in a thin New York market. Following the abolition of the surcharge on the Fed's discount rate sterling initially made good much of the previous night's losses, helped again by demand from Europe. The rate rose to 1.91 on Tuesday morning before some heavy commercial and professional selling was encountered. In active trading the rate fell quickly to 1.8895 before recovering to trade between 1.89 and 1.90 for most of the remainder of the period. In much quieter markets on Wednesday, sterling moved up against a weakening dollar to close at 1.9015, 1½ cents higher over the week. Although finishing below its best levels, the pound made sizeable gains in Europe rising 2½% against the deutschemark (4.26%) and the French franc (10.77) and 2½% against the Swiss franc (3.42%). Against the ECU sterling's premium on its notional central rate rose to 4½%. The rapid decline in Euro-dollar rates continued and three-months deposits closed 1 3/16% lower at 12 13/16%. With sterling inter-bank rates relatively firm the forward discount widened to 1 13/16%, leaving sterling's intrinsic premium at 3/16%.

Despite the removal of the discount rate surcharge by the Fed and a further sharp fall in US interest rates, the dollar weakened only against the yen & Canadian \$. The deutschemark was particularly soft, on expectations of a cut in Lombard rate and political uncertainties, and it held back all EMS currencies, losing 1½%, to close at 2.2435. By the close EMS was 2½% wide, the Danish crown (7.21) remaining at the top and the French franc (5.6637) easing a little lower in the band after purchases of \$60mn. The guilder (2.4540) was firm and the Central Bank bought \$240mn. The Italians sold \$190mn. but the Irish bought \$75mn. Outside EMS, the Swiss franc (1.8017) was initially very strong, improving to DM 0.79 but it gave up its gains following steps by the National Bank to limit its appreciation; they bought \$150mn. The yen was in good demand for investment purposes gaining 2% to 222.32. The Swedes continued to provide support for their crown, selling \$110mn. while the Canadians bought \$450mn.

Gold remained a weak market. The price fell steadily throughout most of the week, bottoming at the morning fixing on Tuesday at \$395.75. Some buying interest, probably from the Middle East, appeared at the lower levels and the price recovered a little to close at \$403.75, a fall of \$8 over the week.

19th November 1981, TRS. DAH

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>12th November 1981.</u>		<u>19th November 1981</u>
<u>1.8845</u>	£/\$	<u>1.9235</u>
<u>89.2</u>	Effective exchange rate index	<u>90.7</u>
<u>15/16% p.a. disc.</u>	Forward 3-months	<u>1 13/16% p.a. disc.</u>
<u>13$\frac{3}{8}$%</u>	Euro-\$ 3-months	<u>12 11/16%</u>
<u>$\frac{1}{4}$% pre.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>2.2080</u>	\$/DM	<u>2.2245</u>
<u>4.16$\frac{1}{2}$</u>	£/DM	<u>4.27$\frac{1}{2}$</u>
<u>10.50$\frac{1}{2}$</u>	£/FF	<u>10.78$\frac{1}{2}$</u>
<u>227.22</u>	\$/Yen	<u>218.97</u>
<u>\$412</u>	Gold	<u>\$400</u>
<u>1.7680</u>	\$/S.Fc.	<u>1.7797</u>
<u>3.33$\frac{1}{2}$</u>	£/S.Fc.	<u>3.42$\frac{1}{2}$</u>