

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 2nd December 1981

The influence of interest rates on the exchanges seemed to diminish further this week. There was relatively little reaction to a sharp rebound in US interest rates and the dollar ended the week slightly easier. Sterling continued in strong demand and the ERI rose 0.6 to 91.8, after 92.2 at noon on Monday.

The inflow of tax receipts delayed by the civil service dispute, together with continuing large sales of gilts, made for considerable tightness in the domestic sterling market and sterling interest rates edged higher. Thus, although dollar rates also rose, the differential between UK and US rates narrowed only slightly and sterling again benefitted from some portfolio investment demand. The Thanksgiving Day holiday in the US made for a quiet start to the week and from a closing level in New York on Wednesday night of 1.9340, sterling rose a little in the Far East to open in London at 1.9352. In light trading sterling was in some modest demand on official account and the rate started to rise gently but the pace of the advance quickened on Friday as widespread buying on both official and investment account developed; the pound reached 1.9580 on Friday afternoon before closing that evening at 1.9555. Demand for sterling continued in the Far East on Monday and against a weaker dollar sterling rose from its opening level of 1.9635 to 1.9728 in the early afternoon before some sizeable profit-taking, mainly from the US, occurred. As the dollar strengthened generally sterling fell back to 1.9520 that evening and to 1.9455 the next day but it nevertheless continued to gain ground against the Continental currencies. On Wednesday, when the dollar largely held its better levels, sterling traded between 1.94½ and 1.95½ before ending the period firm at 1.9495. The pound rose further in Europe gaining ½% in Germany (4.33½%), ¾% in France (10.94½%) and 1% in Switzerland (3.47½%). Against the ECU sterling's premium on its notional central rate rose to 6%. After the sharp declines of recent weeks three-months Euro-dollars rose ¾% to close at 12¾%. Sterling's forward discount narrowed to 2½% and the covered differential was unchanged at ¼% in favour of London.

Although prime rates in the US declined further, with most major banks moving to 15½% and two to 15¼%, the sustained rally in the US bond markets halted as the money supply showed a further rise and Federal Funds moved back to the 13% level. Sizeable inflows into the dollar were noted but after net support of \$115mn. by the Bundesbank the mark was a little firmer at 2.2218. Pressures on the Belgian franc (37.81) increased during the week and it replaced the mark at the bottom of the EMS, 2½% below the Danish crown (7.1850); the Belgian National Bank sold the equivalent of \$170mn. The French franc (5.6152) also eased lower within the band. The Bank of Italy sold \$260mn. but the Dutch bought \$75mn. of dollars and deutschemarks. Outside EMS, the Swiss franc (1.7830) eased to 0.80½ against the mark after purchases of \$60mn. by the National Bank. The improvement in the yen paused too and after touching 213½ it closed at 215.27. The Canadians were able to recoup a further \$140mn. but the Swedes spent a similar amount in the defence of their crown.

Gold was again a fairly active market. Last week's rally continued at first, and the price fixed at \$415.50 on Monday morning, but the gains could not be held in the face of rising US interest rates. The final fixing was at \$406.75, \$2.75 lower over the week.

2nd December 1981

TRS

RATES, ETC.

10.15 a.m.

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<u>26th November 1981</u>		<u>3rd December 1981</u>
<u>1.9382</u>	£/\$	<u>1.9465</u>
<u>91.3</u>	Effective exchange rate index	<u>91.8</u>
<u>2½% p.a. disc.</u>	Forward 3-months	<u>1¼% p.a. disc.</u>
<u>12 13/16%</u>	Euro-\$ 3-months	<u>12¾%</u>
<u>½% pre.</u>	I.B. Comparison	<u>5/16% pre.</u>
<u>2.2227</u>	\$/DM	<u>2.2282</u>
<u>4.30¼</u>	£/DM	<u>4.33¼</u>
<u>10.88¾</u>	£/FF	<u>10.95¾</u>
<u>216.35</u>	\$/Yen	<u>215.82</u>
<u>\$410</u>	Gold	<u>\$419</u>
<u>1.7757</u>	\$/S.Fc.	<u>1.7895</u>
<u>3.44½</u>	£/S.Fc.	<u>3.48½</u>