

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 9th December 1981

Co-ordinated reductions in interest rates in Europe and the US caused some contradictory movements on the exchanges. Despite the 1% cut in the Fed's discount rate the dollar strengthened over the week. Sterling weathered the $\frac{1}{2}\%$ cut in UK rates well at first but ended the week rather easier; the ERI fell 0.5 to 91.3.

Sterling was a good two-way market throughout the week with some large official and commercial orders rather outweighed by bouts of professional selling. Some resistance to the 1.95 level was at times apparent and as the rate moved down through 1.93 some chartists' selling points were triggered. Sterling closed in New York on Wednesday night at 1.95 and opened in London against a firmer dollar at 1.9472 the following day. Expectations of a cut in the clearing banks' base rates led to some early professional selling and after the reductions the rate moved back to 1.9305 before turning as buyers reappeared. Following the $\frac{1}{2}\%$ cut in German Lombard rate sterling came into some demand which increased further after the 1% fall in the Fed's discount rate and the pound reached 1.9555 in London on Friday. However, the dollar firmed after the rather disappointing US money supply figures and sterling briefly lost $1\frac{1}{2}$ cents in New York on Friday night but had returned to the 1.95 level on Monday on the back of strong commercial demand from the Far East. Although the higher levels were not maintained as the dollar strengthened generally later that day, the pound continued to make some gains against the Continental currencies, touching DM 4.35 on Tuesday morning. This relative strength attracted some professional selling and as the pound moved back through 1.93 some chartist point selling orders were activated. In lively trading the rate fell to 1.9180 on Tuesday afternoon before recovering to trade between 1.92 and 1.93 for the balance of the week. Sterling closed at 1.9233, $2\frac{1}{2}$ cents lower over the week. Sterling's performance on the Continent was a little mixed: it lost $\frac{1}{2}\%$ against the deutschemark (4.31), $\frac{1}{4}\%$ against the French franc (10.91 $\frac{1}{2}$) but gained $1\frac{1}{4}\%$ on a weak Swiss franc (3.52 $\frac{1}{2}$). Against the ECU sterling's premium on its notional central rate fell to 5 $\frac{1}{2}\%$. Three-month Euro-dollars and the forward discount were both virtually unchanged over the week and the covered differential remained at $\frac{1}{2}\%$ in favour of London.

The 1% reduction in the Fed's discount rate was already largely discounted and with concerns about the likely size of the US budget deficit again upsetting the US bond market, yields there rose sharply over the week keeping US interest rates very firm. The dollar was in good demand on the exchanges particularly against the Swiss franc and it strengthened against all European currencies. The Bundesbank was active in defence of the deutschemark at the 2.25 level (selling \$200mn. over the week) but it closed $\frac{1}{4}\%$ easier at 2.2410. However, the mark moved further away from the bottom of the EMS where the Belgian franc (38.32) was under daily pressure against both the Danish crown (7.2675) at the top and French franc (5.6770); the National Bank spent \$300mn. equivalent in defence of the franc. The Dutch bought the equivalent of \$140mn. Elsewhere the Swiss franc (1.8325) eased sharply following the $\frac{1}{2}\%$ cut in Lombard rate and it fell to 0.81 $\frac{1}{2}$ against the mark. The yen (218.40) was soft as well, on expectations of a discount rate cut in Japan.

Gold was an active market. The price moved up sharply before the weekend, reaching \$426 on Friday following the reductions in interest rates. The higher levels could not, however, be held in the face of the strength of the dollar and the price ended at \$410.25, \$3.50 higher over the week.

9th December 1981.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>3rd December 1981</u>		<u>10th December 1981</u>
<u>1.9465</u>	£/\$	<u>1.9040</u>
<u>91.8</u>	Effective exchange rate index	<u>90.6</u>
<u>1½% p.a. disc.</u>	Forward 3-months	<u>2% p.a. disc.</u>
<u>12½%</u>	Euro-\$ 3-months	<u>13½%</u>
<u>5/16% pre.</u>	I.B.Comparison	<u>½% pre.</u>
<u>2.2282</u>	\$/DM	<u>2.2477</u>
<u>4.33¼</u>	£/DM	<u>4.28</u>
<u>10.95¾</u>	£/FF	<u>10.84</u>
<u>215.82</u>	\$/Yen	<u>218.75</u>
<u>\$419</u>	Gold	<u>\$407</u>
<u>1.7895</u>	\$/S.Fc.	<u>1.85</u>
<u>3.48¼</u>	£/S.Fc.	<u>3.52¼</u>