FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 20th January 1982

The exchanges were active and volatile, with the sharp growth in US money supply and consequent rise in Euro-dollar rates putting pressure on most of the major currencies. Sterling alone stood out against the trend, making gains in all centres as the threat of a miners' strike receded. The ERI rose 1.1 to 91.4.

Sterling was a good two-way market throughout the week and some sizeable investment and official demand was seen. A sharp reduction in the uncovered differential between UK interest rates, which edged down, and US rates, which moved higher, had little impact on the pound which was buoyed up by the belief that a miners' strike was unlikely. Sterling closed in New York on Wednesday night at 1.8587 but opened at 1.8550 in London the following day. In a rather nervous market, sterling traded for most of the day around the 1.86 level but started to rise on Friday as the dollar weakened following a sharp drop in US industrial production. Sterling was in some demand on oil company account and the rate reached 1.8805 that afternoon before easing back to 1.8720 by the close. The huge increase in the US money supply made for a much firmer dollar on Monday, but from an opening level of 1.8640 sterling moved up to trade around 1.87, helped by growing confidence about the outcome of the miners' vote. Although sterling's strength against the Continental currencies attracted some professional selling, good official demand, together with some investment interest, carried the rate up to 1.8980 in London on Tuesday as the dollar itself eased. However, Fed action that afternoon to tighten liquidity in the US domestic market halted the fall in the dollar and sterling fell back to trade throughout Wednesday around the 1.88½ level, ending at 1.8865, one cent higher over the week. The pound was firmer on the Continent as well, gaining 1½% in Germany (4.34¾) and France (11.05⅝) and ¾% in Switzerland (3.50⅛). Against the ECU sterling's premium on its notional central rate rose to 6 7/16%. Three-months Euro-dollars ended the week 9/16% firmer at 14½%. Sterling interbank rates fell by a similar amount to 14 13/16% and the forward discount narrowed to ⅛%, leaving the intrinsic premium at 7/16%.

Although some indicators suggested that the US recession was continuing to deepen, the $9.8bn. increase in M1 took the markets by surprise and sent Euro-dollar rates sharply higher. Federal Funds also moved up throughout the week and the dollar, although closing a little below its best levels, nevertheless gained 1% against the deutschemark despite resolute intervention by the Bundesbank; they sold $680mn. over the week and the mark closed at 2.3045. EMS was virtually unchanged: the band was 1⅜% wide with the Belgian franc (39.18) at the bottom and the guilder (2.5247) again at the top; the Belgians sold $70mn. The French franc closed at 5.8610 after support also totalling $70mn. The Italians sold $90mn. Elsewhere, the Swiss franc (1.8557) improved to 0.80½ against the deutschemark. The yen (225.32) was weak and although the Japanese authorities expressed concern about the decline, intervention by the Bank of Japan totalled only $70mn. $90mn. support was provided for the Swedish crown and the Canadians sold $60mn.

Gold broke down through its previous support price at $380, trading in the Far East at a new two-year low of $366 on Monday morning. Although there was some slight recovery from this level, the market remained nervous and the final fixing at $371.50 was $8.50 lower over the week.

20th January 1982.

TRS

RATES, ETC.

10.15 a.m.		10.15 a.m.
14th January 1982		21st January 1982
1.8595	£/$	1.8886
90.1	Effective exchange rate index	91.5
1% p.a. disc.	Forward 3-months	⅛% p.a. disc.
14 5/16%	Euro-$ 3-months	14 9/16%
¼% pre.	I.B.Comparison	5/16% pre.
2.3055	$/DM	2.3035
4.28¾	£/DM	4.35
10.89	£/FF	11.06
225.40	$/Yen	225.85
$372	Gold	$376
1.8675	$/S.Fc.	1.8542
3.47¼	£/S.Fc.	3.50⅛