

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 27th January 1982

The exchange markets' preoccupation with interest rates diminished somewhat during the week as attention switched to the improving balance of payments position in Germany and the large surplus in the United Kingdom. Although introduced against a background of firm US interest rates,  $\frac{1}{2}\%$  reductions in Germany, the Netherlands and the United Kingdom led to only a slightly stronger dollar. Sterling was a good two-way market; the ERI eased 0.1 to 91.3.

Sterling looked a little vulnerable following the  $\frac{1}{2}\%$  cut in base rates on Friday and by Monday a sizeable uncovered interest rate differential in favour of the dollar had emerged. However, the publication of the £ $\frac{1}{2}$ bn. current account surplus for December provided some comfort, and with US rates easing a little towards the end of the week, the nervousness disappeared. The pound closed at 1.8880 on Wednesday night in New York and opened at 1.8862 in London the next day. Some good commercial demand from the Far East, together with a slightly weaker dollar as the US bond market improved, helped the rate to rise to 1.8930 during the afternoon but, as the Fed later moved to tighten liquidity, the dollar soon recovered. Sterling fell rather more than the other major currencies and was trading around the 1.87 $\frac{1}{2}$  level in London on Friday when the first base rate cut was announced. Although widely expected following the reductions in European interest rates the previous day, the move nevertheless provoked some professional selling and sterling fell back to 1.8677 before recovering to 1.8740 by the close. The unexpected rise (+\$0.7bn.) in the US money supply announced on Friday night made for a much firmer dollar from the outset on Monday and the pound, having opened at 1.8657, soon encountered widespread selling. As the dollar forged steadily higher sterling gave ground, falling to 1.8485 at one point, although it remained fairly steady against the Continental currencies. Mr. Volcker's statement to Congress on Tuesday that the increase in the US money supply was temporary, caused the dollar to surrender much of its gains later that day and on Wednesday and sterling recovered to reach 1.8795 before closing at 1.8746. The pound lost over 1% in Switzerland (3.46 $\frac{1}{2}\%$ ) but was little changed in Germany (4.33 $\frac{1}{2}\%$ ) and France (11.04 $\frac{1}{2}\%$ ). Against the ECU sterling's premium on its notional central rate fell to 6 $\frac{1}{2}\%$ . Three-months Euro-dollars ended the week  $\frac{1}{4}\%$  firmer at 14 $\frac{1}{2}\%$  (after 16% on Monday). Forward sterling moved to a premium of  $\frac{3}{8}\%$  and the covered differential in favour of London narrowed to  $\frac{3}{8}\%$ .

Following the cuts in European interest rates and the rise in the US money supply, the dollar strengthened very sharply on Monday but eased back after Volcker's reassuring remarks, to close the week only a little firmer in most centres. The Bundesbank provided \$65mn. support for the mark, which closed at 2.3130, after the publication of a DM5.1bn. trade surplus in December. EMS was only 1% wide, between the Belgian franc (39.29) and the guilder (2.5410), with the French franc (5.8925) in second place. The Danes sold \$130mn., the Irish \$70mn. and the Italians \$50mn. Elsewhere, the Swiss franc (1.8465) was firm at 0.79 $\frac{1}{4}\%$  against the deutschemark but the yen fell a further 1 $\frac{1}{2}\%$  closing at 228.75 after support totalling \$170mn.

Turnover in the gold market was heavy and after several weeks of decline the price showed some improvement. Most of the rise occurred on Wednesday when there was some good demand, together with nervous short-covering, as the price moved above \$380. The final fixing at \$381.75 left the price \$10 higher over the week.

27th January 1982.

TRS

RATES, ETC.

10.15 a.m.

21st January 1982

1.8886

£/\$

91.5

Effective exchange rate index

½% p.a. disc.

Forward 3-months

14 9/16%

Euro-\$ 3-months

5/16% pre.

I.B.Comparison

2.3035

\$/DM

4.35

£/DM

11.06

£/FF

225.85

\$/Yen

\$376

Gold

1.8542

\$/S.Fc.

3.50½

£/S.Fc.

10.15 a.m.

28th January 1982

1.8675

91.4

1 3/16% p.a. pre.

15½%

½% pre.

2.3330

4.35½

11.08

230.90

\$381

1.8605

3.47½