

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 3rd March 1982

Against the background of rapidly falling oil prices, there was some further easing in the level of world interest rates during the week. The effects on US rates of a rise in M1 were rapidly reversed by the continuation of the rally in the US bond market and the dollar ended only a little firmer. Coming so soon after last week's fall in base rates, sterling weathered the cut in BNOC's oil price well; the ERI closed unchanged at 90.8.

Despite the cut in base rates, sterling was firm in the period before the weekend when some demand from oil companies was evident for the payment of Petroleum Revenue Tax. However, the \$4 a barrel cut in the price of North Sea oil announced on Tuesday was larger than the market expected and provoked some sizeable selling but by the close on Wednesday the pressure had abated. After closing in New York at 1.8365 on Wednesday night, sterling opened in London at 1.8330 on Thursday. In initially rather quiet markets, the rate traded up to 1.8350 during the morning but then drifted back as the dollar firmed generally. This pattern continued on Friday, when some commercial selling of sterling commenced and the rate fell to 1.8140 before closing at 1.8225. The rise in US money supply on Friday evening made for a much firmer dollar on Monday and sterling fell back to 1.8075 in early business before recovering during the afternoon as the US bond market started to rally. By Tuesday morning sterling was back above 1.82 but with growing expectations in the market of a large cut in BNOC's oil price and some selling of sterling by oil companies, it failed to keep pace with the improvement being shown by the Continental currencies. News of the \$4 a barrel reduction sparked off further selling, mainly from the US and the rate touched 1.8120 that evening. On Wednesday, in a rather quiet market, it remained around 1.82 throughout the day and closed at 1.8228. After losing ground on Tuesday, over the week as a whole, sterling was little changed on the Continent, closing at 4.32½ in Germany, 11.03½ in France and 3.42½ in Switzerland. Against the ECU sterling's discount on its new notional central rate narrowed to ½%. Three-month Euro-dollars fell ¼% to 14 13/16% and sterling's forward premium widened to 1 1/16%. The covered differential moved to ¼% against London.

The \$1.2bn. rise in M1 caused the dollar to firm sharply after the weekend but as other indicators reaffirmed the weakness of the US economy, the recent rally in the US bond market was soon resumed and the dollar eased back. News of a tax evasion scandal in Germany involving senior government ministers put the deutschemark under pressure before the weekend but the Bundesbank provided vigorous support, selling \$310mn. The mark closed at 2.3705, ¼% down over the week. EMS narrowed further, to ¾% between the deutschemark at the bottom and the guilder (2.5990) which replaced the Danish crown (7.96) at the top. The French franc closed at 6.0562. The Belgians took the opportunity to reduce their discount <sup>rate</sup> by 1% to 13%. The Italians sold \$170mn. and the Irish \$120mn. Elsewhere the Swiss franc (1.8782) was unchanged against the deutschemark at 0.79½. Despite the move to lower oil prices, the yen fell 1% to 236.30, weakened by reports that OPEC countries were liquidating Japanese investments. The Bank of Japan sold \$160mn. The Canadians again provided heavy support for their dollar, selling \$300mn.

Gold was again an active but weak market. Continued producer selling and further reports of selling by Middle East holders caused another fall in the price. The final fixing at \$353.75 was a new 30-month low and it left the price \$9 lower over the week.

3rd March 1982.

TRS



RATES, ETC.

10.15 a.m.

10.15 a.m.

25th February 1982

4th March 1982

1.8315

£/\$

1.8223

91.2

Effective exchange rate index 90.8

1% p.a. pre.

Forward 3-months

1 1/16% p.a. pre.

14 $\frac{7}{8}$ %

Euro-\$ 3-months

14 $\frac{3}{4}$ %

$\frac{1}{8}$ % pre.

I.B. Comparison

1/16% disc.

2.3707

\$/DM

2.3705

4.34 $\frac{1}{2}$

£/DM

4.32

11.06 $\frac{3}{4}$

£/FF

11.03 $\frac{1}{8}$

236.40

\$/Yen

236.30

\$366

Gold

\$349

1.8787

\$/S.Fc.

1.8822

3.44

£/S.Fc.

3.43