

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 10th March 1982

Despite a sharp fall in the US money supply, uncovered interest rate differentials in favour of the US widened during the week as the trend towards lower rates continued in Europe. Although easier at first, the dollar ended the week broadly unchanged. Sterling weakened further on oil and interest rate fears; the ERI shed 0.7 to 90.1.

Weakening oil prices, and some nervousness in advance of the Budget on anticipations of cuts in the clearing banks' base rates, put pressure on sterling at times, but the pound nevertheless ended the week fairly comfortably. After closing in New York on Wednesday night at 1.8250, sterling opened at 1.8235 in London on Thursday and initially traded narrowly either side of this level in a quiet market. As the dollar started to weaken that evening, sterling moved up in New York and on Friday morning touched 1.8415 before closing at 1.8385. Following the sharp reduction in the US money supply announced on Friday evening, the dollar was easier still at first on Monday but sterling was subject to heavy selling following threats of further reductions in oil prices. Although the rate touched 1.8353, European selling quickly took it lower as UK interest rates eased down, leading to speculation about base rate changes. Heavy selling was seen in New York that evening where, under pressure of a large order, sterling touched 1.8025, but the lower levels did encourage some demand in London the following day and sterling had recovered to 1.8195 by mid-morning on Tuesday. Some nervousness was evident as the Chancellor rose to deliver his Budget address and his opening remarks about substantial cuts in taxation provoked a swift fall from the 1.81 level to 1.7970. However, as the full content of the Budget speech became clear, the rate recovered and traded around 1.81 on Wednesday in, again, a rather quiet market. The rate ended the week at 1.8086. Sterling was considerably easier on the Continent, losing $1\frac{1}{2}\%$ to a strong Swiss franc (3.36 $\frac{1}{2}$), $1\frac{1}{2}\%$ in Germany (4.26 $\frac{3}{4}$) and 1% in France (10.93 $\frac{1}{4}$). Against the ECU sterling's discount on its notional central rate widened to $1\frac{3}{4}\%$. Three-month Euro-dollars were virtually unchanged over the week at 14 $\frac{3}{4}\%$ but three-month inter-bank sterling fell $\frac{3}{8}\%$ to 13 $\frac{5}{16}\%$. Sterling's forward premium widened to $1\frac{1}{2}\%$ and the covered differential moved to $1/16\%$ in favour of London.

The rise in US unemployment, the sharp fall in M1 (-\$3bn.) and $\frac{1}{2}\%$ reduction to 16% in some prime rates initially caused the dollar to weaken. However, as so often before, it proved extremely resilient and as yields in the US domestic market started to rise again, helped by the tightness of Federal Funds, the dollar recovered to end the week only slightly easier. The deutschemark improved by only $\frac{1}{2}\%$ to 2.36 with no significant support from the Bundesbank. In EMS the Belgian franc (43.74) replaced the mark at the bottom of the band, $1\frac{1}{2}\%$ below the guilder (2.5858) but within the arrangement the French franc (6.0447) weakened and the Bank of France provided \$780mn. equivalent in support. The Italians sold \$400mn. and the Irish \$60mn. Elsewhere, despite a further cut in the banks' deposit rates, the Swiss franc (1.8605) firmed further to 0.78 $\frac{1}{2}$ against the mark. The yen, however, remained rather soft, falling $\frac{1}{2}\%$ to 237.55. Slightly easier US rates and a good set of trade figures took the pressure off the Canadian dollar and the Bank of Canada was able to recoup some \$340mn.

Gold fell further during the week in very active trading. Once the price broke down through the \$350 level it fell swiftly on continued heavy selling from the Soviet Union and the Middle East. A new two and a half year low of \$325.50 was established at the morning fixing on Tuesday and the price ended at \$333, \$20.75 lower over the week.

10th March 1982.

TRS

RATES, ETC.

10.15 a.m.

10.15 a.m.

4th March 1982

11th March 1982

1.8223

£/\$

1.8077

90.8

Effective exchange rate index 90.1

1 1/16% p.a. pre.

Forward 3-months

1 9/16% p.a. pre.

14 3/4%

Euro-\$ 3-months

14 3/4%

1/16% disc.

I.B. Comparison

interest parity

2.3705

\$/DM

2.3612

4.32

£/DM

4.26 3/4

11.03 7/8

£/FF

10.93 1/2

236.30

\$/Yen

237.95

\$349

Gold

\$333

1.8822

\$/S.Fc.

1.86

3.43

£/S.Fc.

3.36 1/4