

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 24th March 1982

The growing tensions within EMS were the main feature of the week and the band was only held at the cost of heavy support for the French and Belgian francs. Although dollar rates eased a little, interest rate cuts in Germany, Switzerland and Holland left differentials heavily in favour of the US and kept the dollar very firm. Again, only sterling stood out against the strength of the dollar; the ERI rose 0.7 to 91.4.

Sterling was on the sidelines for much of the week, with many of the factors evident in recent weeks still providing support for the rate. The steady flow of official demand continued and the large daily shortages in the domestic sterling market kept short-term sterling rates firm. Sterling closed in New York at 1.8085 on Wednesday night, opened at 1.81 in London on Thursday and initially moved narrowly either side of that level in quiet trading. When the dollar strengthened sharply on Friday, as pressure on the French franc increased, sterling remained extremely resilient, helped by the encouraging RPI, and it fell only briefly below 1.80 to 1.7975 on Friday night when the IMM was selling sterling. The pattern was very similar after the weekend, with the dollar at first extremely strong and sterling again trading quietly between 1.80 and 1.80½ but it dipped to 1.7985 in New York on Monday evening. More activity was evident on Tuesday when some sizeable commercial and professional selling of sterling was seen and the rate fell to touch 1.7988 before again recovering to trade between 1.80 and 1.80½. However, as the pressure on the European currencies eased in New York on Tuesday night, sterling came into good demand and rose there to touch 1.8155 before settling to trade around 1.81 on Wednesday. The rate ended at 1.8085. Sterling was firm on the Continent, gaining almost 2% against a weak French franc (11.30¼) and ½% in Germany (4.31¾) and Switzerland (3.42½). Against the ECU sterling moved to a premium of ¼% on its notional central rate. Three-month Euro-dollars fell ¾% over the week to close at 14 11/16%. With three-month sterling interbank rates little changed, sterling's forward premium narrowed to 1¼% and there was a covered differential of 1/16% in favour of London.

The heavy pressure on the weaker members of the EMS continued throughout much of the week and a number of currencies fell to all-time lows against a very firm dollar. However, by the end of the period, following some easing in US short-term interest rates, the dollar had moved back a little from its highest levels. The deutschemark, buoyed up by improving trade figures, moved to the top of the EMS, closing at 2.3855. The band was fully-stretched for most of the week but pressure abated on Wednesday following a sharp rise in French short-term interest rates. The Bank of France also provided massive support for the franc (6.2525) selling the equivalent of \$840mn., and the Dutch and the Germans bought French francs equivalent to \$390mn. and \$70mn. respectively. The Belgians, too, were active in defence of their franc (45) and the National Bank sold \$300mn. equivalent. The Italians sold \$800mn. and the Danes \$210mn. Elsewhere, the Swiss franc (1.8936) was unchanged against the deutschemark at 0.79¾. The yen (242.95) weakened further, despite \$170mn. of support from the Bank of Japan.

Gold was a very active market. The easier tone to US short-term rates reduced the cost of carry and provoked short-covering and some institutional demand. The price ended at \$331.75, \$15.75 higher over the week.

25th March 1982.

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