

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 7th April 1982

Sterling came under severe pressure following the Falklands invasion and fell to its lowest level against the dollar for 4½ years. The ERI closed 1.0 lower at 90.0 after 89.4 on Tuesday. The dollar remained firm despite a large fall in M1 in the USA, while tensions within the EMS continued.

There was no immediate reaction to the invasion, but following the Government's poor showing in Saturday's Commons debate and the order to assemble a major assault force, sterling came under attack after the weekend. The Foreign Secretary's resignation added to the pressure, as did growing concern for the survival of the Government itself. The pound fell to its lowest level for 4½ years before news of the US diplomatic initiative brought some recovery. Sterling closed at 1.7845 in New York on Wednesday night and after opening at 1.7830 on Thursday moved up steadily in quiet markets as the dollar eased, touching 1.7925 on Friday morning. Both the announcement of a \$4.4bn. decline in the reserves (after the annual revaluation) and that of a swing to deficit in the trade account were absorbed without difficulty on Friday and the pound closed at 1.7877 against a marginally stronger dollar before the weekend. Sterling opened on Monday however at 1.7790 and soon encountered heavy professional selling from the Far East and Europe. It fell to 1.7705 before recovering, with official assistance, to trade around 1.77½. Confirmation of the Foreign Secretary's resignation brought a fresh wave of selling from New York and the pound fell to 1.7665 against a strengthening dollar. On Tuesday morning the pressures resumed from an early hour in the Far East with commercial selling combining with professional operations to push the pound down to 1.7470 (DM 4.21½). Short-covering by professionals and cheap commercial buyers helped the pound to recover to 1.7645 on Wednesday, as hopes increased of a diplomatic solution to the dispute with Argentina. The pound fell by 1½% against the deutschemark (4.25¼) and ¾% against the French franc (11.08½) but gained ½% on an easier Swiss franc (3.46¾). Against the ECU sterling's discount on its notional central rate increased to 1½%. Three-month Euro-dollars closed unchanged at 15 7/16%. Sterling's forward premium narrowed to 1¾% and the covered differential was reduced to 1/16% in London's favour.

The decline of \$3.0bn. in US money supply was to some extent discounted and the dollar remained firm, despite a technical fall in short-term interest rates, as uncertainties over both sterling and EMS provoked inflows. The EMS remained under pressure and closed almost fully-stretched between the deutschemark (2.4101) and the Belgian franc (45.51). The Belgian authorities sold \$275mn. of exchange and increased Discount and Lombard Rates by 1% and 1½% respectively to 14% and 15%. The Bank of France reduced official interest rates but the franc (6.2820) encountered some pressure and the French sold \$125mn. and \$280mn.-worth of deutschemarks. The Italians sold over \$450mn., the Danes \$375mn., the Irish \$50mn. and the Germans and Dutch each sold \$30mn. The Swiss franc (1.9615) weakened again following further reductions in interest rates and closed at 0.81¾ against the mark. Support from the Bank of Japan (\$400mn.) and reaffirmation of the authorities' commitment to a strong yen helped it recover to 245.82.

Gold was an active and nervous market. The bellicose nature of the interchanges between Argentina and the UK was the main factor but this provoked several bursts of panic short-covering from the New York futures market. The final fixing was \$354, a rise of \$34 over the week.

7th April 1982  
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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
1st April 1982		8th April 1982
1.7835	£/\$	1.7505
91.0	Effective exchange rate index	89.6
1 15/16% p.a. pre.	Forward 3-months	2 1/16% premium
15¼%	Euro-\$ 3-months	15 11/16%
½% pre.	I.B.Comparison	⅝% pre.
2.4113	\$/DM	2.4205
4.30	£/DM	4.23¼
11.21¼	£/FF	11.04⅝
247.50	\$/Yen	248.30
\$326	Gold	\$352.50
1.9400	\$/S.Fc.	1.9785
3.46	£/S.Fc.	3.46⅜