

JYS

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 14th April 1982

Although hopes for a negotiated settlement over the Falklands waned as the week wore on, there were no developments to unsettle sterling which remained steady at its new, lower levels. The ERI rose 0.2 to 90.2. Firm US interest rates and demand for dollars over the long holiday weekend took the dollar to eight-month highs.

Sterling was a good two-way market for much of the week and although there were periods of nervousness, there was little heavy selling. The pound closed in New York on Wednesday night and opened in London on Thursday at 1.7625 but it soon encountered some selling from the Far East. When a large commercial seller also appeared in London, the rate gave further ground against a generally stronger dollar, falling to 1.7490 before recovering to 1.7570 by the close that day. Over the long holiday weekend sterling was at times quite actively traded between 1.75 and 1.76 but it strengthened on the Bank Holiday Monday, as the dollar weakened, to close in New York that day at 1.7690. Thereafter, in rather quiet markets, awaiting developments in the South Atlantic, sterling traded mostly between 1.76 and 1.77, reaching 1.7775 at best in New York on Tuesday evening. Some good demand was seen from Eastern Europe, in particular, in the last two days of the week and the rate closed at 1.7656. Sterling recovered some of its recent losses in Germany gaining $\frac{1}{4}\%$ to 4.26 $\frac{1}{2}$ but was unchanged in France (11.09) and a little weaker in Switzerland (3.45 $\frac{3}{8}$). Against the ECU sterling's discount on its notional central rate fell to $\frac{3}{8}\%$. Three-month Euro-dollars closed the week $\frac{1}{16}\%$ higher at 15 $\frac{1}{2}\%$ but sterling's forward premium narrowed to $\frac{1}{8}\%$ taking the intrinsic premium in favour of London to $\frac{1}{8}\%$.

A further decline in US wholesale prices and a very modest rise in M1 (+\$0.9bn.) helped to bring about a brief rally in the US bond market and a fall in yields. The impact of this was, however, offset by the strong demand for dollars seen in advance of, and during, the long weekend which took the dollar to new highs against a number of major currencies. The deutschemark fell to 2.4226 on Thursday but had recovered to 2.4158 by the close, without support from the Bundesbank. Tension within EMS before the weekend, when all the weaker currencies fell to new all-time lows against the dollar, disappeared towards the end of the week. By the close the band was $2\frac{3}{16}\%$ wide with the Belgian franc (45.64) at the bottom, slightly below the lira (1328.70) and the French franc (6.2815). The Belgians provided \$130mn. by way of support, the Italians \$300mn. and the French \$85mn. Elsewhere, the Swiss franc (1.9575) was a touch firmer against the deutschemark at 0.81. The yen fell to 247.05 despite support of \$110mn. from the Bank of Japan. The Canadians bought \$140mn.

Gold was an active and much stronger market. International tension, both over the Falklands and the Middle East, helped to sustain and extend last week's rally. The final fixing at \$366.75 left the price \$12.75 higher over the week.

14th April 1982.

TRS

11

RATES, ETC.

10.15 a.m.

10.15 a.m.

8th April 1982

15th April 1982

1.7505

£/\$

1.7580

89.6

Effective exchange rate index

90.0

2 1/16% premium

Forward 3-months

1 15/16% p.a. pre.

15 11/16%

Euro-\$ 3-months

15 9/16%

½% pre.

I.B. Comparison

¼% pre.

2.4205

\$/DM

2.4225

4.23¼

£/DM

4.25½

11.04½

£/FF

11.08¼

248.30

\$/Yen

248.15

\$352.50

Gold

\$362

1.9785

\$/S.Fc.

1.9715

3.46½

£/S.Fc.

3.46½