

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 28th April 1982

The impact of interest rates diminished further during the week as markets reacted to the latest rumours about the Falklands crisis and to the rapidly improving German balance of payments position. Although Euro-dollar rates held very firm, the dollar lost ground against all currencies. Sterling was inevitably a nervous market for much of the week but periods of heavy selling were relatively few; the ERI fell 0.5 to 89.4.

The recapture of South Georgia and the growing likelihood of an assault on the Falklands led to some pressure on sterling during the week as, with hopes for a peaceful settlement dwindling, many operators preferred to be short rather than long of sterling. Nevertheless, the IMM were good buyers on a number of occasions and helped by demand from this source the pound breached 1.78 on Wednesday evening in New York before closing there at 1.7785. With the dollar firmer in Europe, sterling opened in London on Thursday at 1.7735, and traded around this level in quiet markets until Friday afternoon when, with participants apprehensive about the course of events over the weekend, there was some selling of sterling, particularly from New York; the rate fell back to 1.7677 before closing at 1.7731. News that the UK had recaptured South Georgia, and fears that this would shortly lead to a wider conflict, was followed by panic selling of sterling in the Far East on Monday morning and the rate fell two cents to 1.75 before recovering with the aid of some sizeable official support. The rate then settled at first around the 1.77 level but, with the dollar weakening, it started to move up on Tuesday reaching 1.7787. Strong demand from the IMM in Chicago that evening took the rate to 1.7885 and it then established a new base, a little nervously, around 1.78, ending at 1.7840. The pound was considerably weaker against the EMS currencies, losing 1% to the deutschemark (4.20) and 1½% to the French franc (10.94½) but was unchanged against a soft Swiss franc at 3.46½. Against the ECU sterling's discount on its notional central rate widened to 1½%. Three-month Euro-dollars were 1/16% firmer over the week at 14 15/16%. Sterling's forward premium was unchanged at 1½% and the covered differential narrowed to 1/16% in favour of London.

Rumours of a weekend revaluation of the deutschemark provoked a strong movement of funds into Germany on Friday and the strength of the mark was reinforced by the announcement on Wednesday of a DM 6.4bn. trade surplus in March. At the same time the US money supply unexpectedly fell by \$1.9bn. and the rate of inflation was further reduced. The dollar weakened on a combination of these factors, losing 1½% to the deutschemark which closed at 2.3542. In EMS the Belgian franc (44.43) remained at the bottom of the 2½% band, 2 1/16% from the mark and the National Bank sold deutschemarks worth \$80mn. The French franc (6.1335) required support to hold its cross-rate against the deutschemark at around 2.61 and the Bank of France sold \$700mn. equivalent. The lira (1302.35) moved to 2½% from the mark and the Bank of Italy sold \$500mn. Elsewhere, the Swiss franc (1.9445) continued to ease against the mark, closing at 0.82½. The yen, however, displayed further strength, gaining 2% to 237.80.

Gold was an active and nervous market. The price soared almost to \$370 in Hong Kong on Monday morning after the South Georgia news. With no further hostilities to keep up the momentum, the price later eased back, fixing at \$354.50 on Wednesday afternoon, a rise of \$7.75 over the week.

28th April 1982.

TRS

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RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>22nd April 1982</u>		<u>29th April 1982</u>
<u>1.7743</u>	£/\$	<u>1.7818</u>
<u>90.1</u>	Effective exchange rate index	<u>89.5</u>
<u>1½% p.a. pre.</u>	Forward 3-months	<u>1½% p.a. pre.</u>
<u>14 15/16%</u>	Euro-\$ 3-months	<u>15 1/16%</u>
<u>¼% pre.</u>	I.B.Comparison	<u>¼% pre.</u>
<u>2.3980</u>	\$/DM	<u>2.3575</u>
<u>4.25½</u>	£/DM	<u>4.20</u>
<u>11.09¾</u>	£/FF	<u>10.96¾</u>
<u>243.10</u>	\$/Yen	<u>237.55</u>
<u>\$344</u>	Gold	<u>\$352</u>
<u>1.9620</u>	\$/S.Fc.	<u>1.9515</u>
<u>3.48½</u>	£/S.Fc.	<u>3.47½</u>