

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 5th May 1982

The commencement of serious hostilities between the UK and Argentina over the Falklands made for an active and nervous week on the exchanges. Sterling strengthened at first in the wake of the UK's military successes, but fell back following the loss of HMS Sheffield. The ERI closed 0.2 higher at 89.6 after 90.3 at the opening on Tuesday. Meanwhile, after some hesitation, last week's flows out of the dollar into the deutschemark resumed.

Sterling was a very volatile market throughout the week, reacting sharply to the latest news or rumour from the Falklands. After closing in New York on Wednesday night at 1.7825, sterling opened in London at 1.7814 on Thursday and having touched 1.7803 in early business settled around 1.7815. The IMM were good buyers of sterling on most days and the rate moved briefly above 1.80 on Thursday afternoon when they entered the market. However, the dollar firmed overnight following a poor performance by the US bond market and sterling traded around 1.79 for much of Friday. Rumours late on Friday that the Argentines were prepared to comply with the UN Security Council's resolution on the Falklands sparked off some strong demand for sterling in a thin market and the rate jumped nearly 3 cents in New York to close there that evening at 1.8180. IMM demand was again evident on the May Day Bank Holiday and although the dollar temporarily regained some of its earlier losses, sterling held up well closing that evening at 1.8130. News of the sinking of the Argentine cruiser had little impact on the market but the loss of HMS Sheffield caused some pressure on sterling and the rate fell back below 1.80 for a time, although the dollar was again rather weaker. However, denials by the Defence Secretary on Wednesday afternoon that there had been any further naval encounters brought some recovery and the rate ended the period at 1.8035. Sterling's performance on the Continent was rather mixed: it was a little weaker in Germany (4.18) and France (10.90 $\frac{1}{2}$ ) but gained  $\frac{3}{4}$ % against a softer Swiss franc (3.49 $\frac{3}{8}$ ). Against the ECU sterling's discount on its notional central rate widened to 2 $\frac{3}{8}$ %. Three-month Euro-dollars closed the week unchanged at 14 15/16% but with sterling inter-bank rates rather lower, the forward premium widened to 1 11/16% and the covered differential in favour of London to  $\frac{1}{4}$ %.

Large-scale flows out of the dollar and some other European currencies into the deutschemark were seen on several days, fuelled by the improving German balance of payments position and fears of an EMS realignment. The mark ended the week 1 $\frac{1}{2}$ % firmer at 2.3175, its best level for three months. The strength of the mark caused pressures in EMS before the weekend but by the close the band was only 2% wide with the Belgian franc (43.71) as usual at the bottom and the lira (1288.25) 3% adrift. The French franc closed at 6.0475. The French sold the equivalent of \$370 mn., the Italians \$170 mn., the Belgians \$140 mn. and the Irish \$100 mn. Elsewhere, the Swiss franc (1.9370) weakened further following another cut in banks' deposit rates and it closed at DM 0.83 $\frac{5}{8}$ . The yen (233.85) continued to strengthen.

Gold was a volatile market. The metal remained firm in the early part of the week, fixing at \$361.25 on Friday on expectations of hostilities over the Falklands during the weekend. The price plummeted however, on Friday evening on the incorrect report that the Argentines might withdraw and it never regained the higher levels. The final fixing at \$338.40 represented a fall of \$16.10 over the week.

5th May 1982

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
29th April 1982		6th May 1982
1.7818	£/\$	1.8227
89.5	Effective exchange rate index	90.2
1½% p.a. pre.	Forward 3-months	1¾% p.a. pre.
15 1/16%	Euro-\$ 3-months	14 13/16%
¼% pre.	I.B. Comparison	¼% pre.
2.3575	\$/DM	2.3095
4.20	£/DM	4.21
10.96¾	£/FF	10.97¼
237.55	\$/Yen	233.12
\$352	Gold	\$334
1.9515	\$/S.Fc.	1.93
3.47¾	£/S.Fc.	3.51¼