

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 19th May 1982

The exchange markets became thinner and more volatile as the week progressed. The dollar rebounded sharply from last week's depressed levels as signs of growth in the economy began to emerge. With hopes for the UN peace plan for the Falklands diminishing and the growing likelihood of a UK invasion, sterling was an increasingly nervous market. The ERI fell 0.8 to 89.6.

Although sterling was comfortable in the first part of the week, some sizeable professional and commercial selling developed in the last two days, giving the pound a much weaker tone. The unexpectedly large rise in US retail sales in April caused the dollar to firm in New York on Wednesday night and sterling fell back to close there at 1.8235. The rate opened on Thursday at 1.8365 and saw some reasonable two-way business in fairly quiet markets before the weekend. East European demand carried sterling to 1.8375 on Thursday morning but, with the dollar generally firmer, it closed at 1.8225 in London on Friday evening. The dollar was initially easier on Monday, following a modest rise in M1, and sterling touched 1.8305 in the morning, only to fall back as the dollar's weakness proved short-lived and it started to strengthen rapidly. Some heavy professional selling on Tuesday took the rate down to 1.7990 but it had recovered to 1.8085 by the close that day. The market became much more nervous on Wednesday, as reports indicated that the Argentines had not responded satisfactorily to the UN Secretary General's peace proposals, and there were periodic bouts of heavy selling. The rate dipped to 1.7945 before ending the period at 1.7985. Sterling lost ground against all the EMS currencies, surrendering  $\frac{1}{2}\%$  in Germany (4.16 $\frac{1}{2}$ ) and France (10.87 $\frac{3}{8}$ ) but closed  $\frac{1}{8}$  firmer against a weak Swiss franc (3.55 $\frac{3}{8}$ ). Against the ECU sterling's discount on its notional central rate widened to 2 $\frac{3}{8}\%$ . Three-month Euro-dollars ended the week 5/16% firmer at 14 $\frac{3}{8}\%$ . However, sterling interbank rates rose over  $\frac{1}{2}\%$  to 13 $\frac{5}{8}\%$  and the forward premium narrowed to 1 $\frac{3}{8}\%$ , leaving the covered differential at  $\frac{1}{4}\%$  in favour of London.

Last week's flows out of the dollar were sharply reversed following a large rise in US retail sales in April which suggested that the economy was beginning to move out of the recession. Although this improvement was not confirmed by other indicators published during the week, the dollar ended very much firmer: the deutschemark lost 1 $\frac{1}{2}\%$  to close at 2.3170 (after 2.33 on Tuesday). Further strong pressures within EMS were again apparent before the weekend, when the French sold \$630mn. to support the franc (6.0475). By the close the 2 $\frac{1}{4}\%$  band was fully stretched, between the Belgian franc (43.82) and the deutschemark, with the lira (1287) 2 $\frac{7}{8}\%$  adrift. The Belgians sold \$160mn. and the Italians \$280mn. Elsewhere, the Swiss franc (1.9757) weakened further following yet another cut in the banks' deposit rates and it closed at DM 0.85 $\frac{1}{4}$ . The widening differential between US and Japanese rates hit the yen which fell 2% to close at 238.37; the Bank of Japan sold \$60mn. Pressure on the Swedish crown resumed and the Riksbank provided \$60mn. in support. The Canadians sold \$180mn.

Gold was a fairly active market. The prospect of a UK invasion of the Falklands helped the price to firm and it closed at \$342, a rise of \$11.50 over the week.

19th May 1982.

TRS



RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
<u>13th May 1982</u>		<u>20th May 1982</u>
<u>1.8360</u>	£/\$	<u>1.7865</u>
<u>90.6</u>	Effective exchange rate index	<u>89.1</u>
<u>1 11/16% p.a. pre.</u>	Forward 3-months	<u>1 5/16% p.a. pre.</u>
<u>14 3/8%</u>	Euro-\$ 3-months	<u>14 11/16%</u>
<u>1/8% pre.</u>	I.B.Comparison	<u>5/16% pre.</u>
<u>2.2905</u>	\$/DM	<u>2.32</u>
<u>4.20 1/2</u>	£/DM	<u>4.14 1/2</u>
<u>10.97 3/4</u>	£/FF	<u>10.79 3/4</u>
<u>234.57</u>	\$/Yen	<u>238.40</u>
<u>\$332</u>	Gold	<u>\$342</u>
<u>1.9380</u>	\$/S.Fc.	<u>1.9790</u>
<u>3.55 1/2</u>	£/S.Fc.	<u>3.53 1/2</u>