

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 2nd June 1982

It was a very active week on the exchanges. Renewed concerns that there would be no significant action to curb the US budget deficit and thereby reduce US interest rates contributed towards a sharp strengthening of the dollar. Only sterling stood out against the dollar's advance and the ERI rose 1.0 to 90.7.

Buoyed up by the progress made in the attempt to recapture the Falklands, sterling traded with a very firm tone throughout the week. Turnover was heavy on most days and some large commercial selling orders were absorbed without difficulty. Sterling closed in New York on Wednesday night at 1.7972 and opened in London on Thursday at 1.7970. As the dollar eased temporarily in early trading, sterling rose to 1.7997 and then settled back to move narrowly around 1.79½ for most of the balance of the day. Some large commercial selling orders, totalling well over £100mn., entered the market more or less simultaneously on Friday but despite this, and the strength of the dollar, sterling held up extremely well, falling no lower than 1.7875. Even another large commercial selling order late on Friday afternoon in New York failed to depress sterling and over the long weekend the rate traded down only to 1.7830 on Whit Monday in the Far East, following rumours that HMS Invincible had been damaged, but it opened at 1.7950 in London on Tuesday. As the dollar continued to forge ahead, sterling gave ground grudgingly as there was steady buying interest, particularly from New York. The rate eased back to 1.7815 early on Wednesday when the dollar reached a peak but by the close it had recovered to 1.7875. Sterling was very much firmer against the Continental currencies, gaining 1¾% in Germany (4.24½) and 2¼% in France (11.06½) and Switzerland (3.62½). Against the ECU sterling's discount on its notional central rate narrowed to 1%. Three-month Euro-dollars rose 7/16% over the week to close at 14½%. Sterling's forward premium widened to 1 11/16% and the covered differential in favour of London remained at ¼%.

Fears about the future course of US interest rates, coupled with renewed speculation about an EMS realignment, put all the European currencies under pressure and led to a much stronger dollar. Despite some vigorous support from the Bundesbank, who sold \$210mn., the deutschemark fell 2½% over the week to touch 2.3937 before closing at 2.3750. In EMS the Belgian franc (44.89) remained at the bottom, 2 3/16% below the deutschemark after support of \$160mn. equivalent. The French franc (6.1967) was under pressure for much of the week and the Bank of France sold \$130mn. The lira (1316.50) closed 2½% from the deutschemark and the Bank of Italy was able to buy \$130mn. Elsewhere the Swiss franc (2.0257) weakened further, to close at DM 0.85½, and the yen fell 2% to 244.95 despite support totalling \$620mn. by the Bank of Japan. The Canadian dollar was under pressure, too, as operators feared the authorities would allow the currency to depreciate against the US dollar; the Bank of Canada sold \$660mn.

The gold market enjoyed another busy week. The price eased down as the dollar strengthened but some good buying was seen at the lower levels. The final fixing at \$318.50 was down \$11.75 over the week.

2nd June 1982.

TRS

RATES, ETC.

<u>10.15 a.m.</u>		<u>10.15 a.m.</u>
27th May 1982		3rd June 1982
1.7982	£/\$	1.7940
89.9	Effective exchange rate index	90.7
1 3/16% p.a. pre.	Forward 3-months	1 11/16% p.a. pre.
14 3/8%	Euro-\$ 3-months	14 5/8%
3/8% pre.	I.B.Comparison	3/16% pre.
2.3310	\$/DM	2.3650
4.19 1/8	£/DM	4.24 1/4
10.90 3/8	£/FF	11.07 1/4
241	\$/Yen	243.17
\$323	Gold	\$321
1.9715	\$/S.Fc.	2.0197
3.54 1/2	£/S.Fc.	3.62 1/4