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FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 22nd December 1982

For much of the week, before a seasonal lull descended on the market, rates moved widely in erratic, and often nervous, trading. Sterling remained weak, with an unsatisfactory OPEC conference adding to the general bearish sentiment, and the ERI fell 1.2 to 84.6. The dollar also continued to decline, as the markets looked to further reductions in US interest rates following a fall in inflation and continuing weakness in the US economy.

Sterling closed in New York on Wednesday at 1.6170 (DM 3.95½). After opening on Thursday morning in London at 1.6152 sterling was slow to move when some aggressive buying of deutschemarks weakened the dollar, with the pound rising to 1.6240 at best, but failing to keep pace with the Continental currencies. On Friday, the pound initially rose, to 1.6287, as the dollar weakened, but, following a statement from Yamani, which seemed to imply that the Saudis might not be wholly committed to a \$34 oil price, sterling fell quickly. With heavy selling from Switzerland and some commercial selling orders, the rate dropped to 1.6165 before steadying with the aid of some support and a large commercial buying order. Later in New York the IMM came in to sell sterling and the rate dropped to 1.6015, despite further heavy support, before closing at 1.6120. Sterling remained an uncertain market on Monday, despite receiving a small boost from OPEC's face-saving agreement, and following further selling of sterling in New York, moved down there to close at 1.6080. With the dollar easier on Tuesday morning, sterling traded narrowly around 1.61½. However, some commercial selling of sterling was seen towards noon, and when a large selling order for a Middle East holder came into the market, the pound began to give ground. After closing in London at 1.6091, sterling continued to drift lower, falling at worst to 1.6025, despite sizeable support, before recovering to 1.6125. Sterling continued to trade around this level on Wednesday, in quiet conditions, before ending the week at 1.6115. The pound declined by 2% against the deutschemark (3.87½), the French franc (11.20%) and against its notional central rate against the ECU (to a discount of 6½%) and fell by 3½% against the Swiss franc (3.37). After reaching 9¼% on Monday, three month Eurodollars closed ¼% lower at 9 5/16%. Sterling's forward discount widened slightly to 1¾%.

The Federal Reserve's decision to reduce the discount rate on 13th December, which had caused the dollar to weaken, appeared to be vindicated by statistics published on the state of the economy. With the prospect of further reductions in interest rates, the dollar continued to weaken to show falls against other major currencies ranging between 1¼% for the yen (240.47) and deutschemark (2.4032) and 3¼% for the Swiss franc (2.0165). On Thursday and Friday EMS came under severe pressure on rumours of a realignment involving a 5% revaluation for the deutschemark and guilder and the temporary withdrawal from the system of the French franc. However, following sizeable intervention and firm statements from the French and German Finance Ministers, the pressure eased. The Bank of France sold \$1400mn. on Thursday and Friday, but subsequently recouped \$600mn. with the franc closing the week 2% higher at 6.8075. Despite support of \$210mn. from the Central Bank of Ireland, the punt dropped to the bottom of EMS with the lira moving to the top 1¼% higher. Other intervention included sales of \$200mn. by the Belgians (mainly in guilders), of \$100mn. by the Danes and \$170mn. by the Italians and purchases of \$260mn of Belgian francs by the Dutch.

Gold was a quiet and dull market. The final fixing on Wednesday was \$447.25.

22nd December 1982

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