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FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 26th January 1983

For sterling a week of two sharply different parts - in the first, the pound continued to display the resilience shown following the Prime Minister's return from the Falklands; in the second, the pound declined sharply, touching a new low against the dollar of 1.5175, as an inconclusive OPEC meeting brought the prospect of weak oil prices. The ERI declined 1.1 to 81.2. The dollar's fortunes also varied sharply, with the dollar moving up initially, as hopes for an early cut in the discount rate faded, but closing the week little changed.

With the IMM bidding strongly for dollars, sterling fell back to close in New York on Wednesday at 1.5597. After opening on Thursday at 1.5645, sterling absorbed a large selling order and moved up to close at 1.57. Later, following news that the Saudis might cut their oil production further, sterling rose to close in New York at 1.5810 and to open in London on Friday at 1.5835. With a continuation of the previous day's selling order and sales by an oil company, the pound fell back to trade around 1.57½. In the afternoon, as the dollar strengthened, sterling fell further, but by less than other European currencies and the pound closed in London at 1.5715 and in New York at 1.5635. The dollar continued to strengthen in the Far East on Monday morning and sterling opened in London at 1.5615 with the ERI at 83.0. However, the relative strength of the pound against the Continental currencies (DM 3.86) and the prominence given to Mr.Shore's remarks on Labour Party policy soon provoked selling and the rate fell steadily, bottoming temporarily at 1.5440 in mid-morning. With New York looking to take the dollar higher, news of the break-up of the OPEC conference produced further selling, and following Sheik Yamani's forecast for North Sea oil prices, the rate fell to close nervously at 1.5360. On Tuesday, with Abu Dhabi reported as intending to increase its oil production, heavy selling developed in the Far East and continued in early business in London where sterling moved to a new low of 1.5175, giving an ERI of 80.8. However, following professional buying from London banks and a US professional making a sizeable speculative purchase, the rate rose rapidly to trade around 1.54 through the afternoon. On Wednesday sterling opened at 1.5520 against a weaker dollar, and after a quieter day closed at 1.5470. The pound declined by 1⅜% against the deutschemark (3.74¼) and French franc (10.60½), by 1¼% against its notional central rate against the ECU (to a discount of 9½%) and by ⅝% against the Swiss franc (3.07⅛). Three-month Euro-dollars rose by ⅜% to 9 3/16% and sterling's forward discount narrowed by 1/16% to 2 1/16%.

The absence of a cut in the US discount rate (despite the absence also of expected cuts in Germany and Japan) and remarks by Volcker on the problems caused by the US budget deficit saw the dollar rise sharply. However, by the close in London on Monday, with the dollar 6 pfennigs higher against the deutschemark, the market began to fell that the pessimism on interest rates had been overdone, particularly with the prospects of lower oil prices again raising fears for the international financial system. As a result, following a particularly erratic day's trading on Wednesday after President Reagan's state of the union message, the dollar closed the week showing only small gains - ¼% against the deutschemark (2.4190) and French franc (6.8550) and ⅝% against the Swiss franc (1.9852). EMS had another fairly quiet week, although the band remained almost fully stretched throughout between the guilder and Danish crown at the top and the Belgian franc and Irish punt at the bottom. The Italians bought $180mn. as the lira moved back above the narrow band, the Danes bought $100mn. and the French sold $90mn. of deutschemarks. Elsewhere the yen remained unchanged at 234.75.

Gold moved with the dollar. After trading in the low $490s on Thursday, the price fell to $475.75 on Monday before recovering to close at $486.50.

26th January 1983.

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