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FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 23rd February 1983

In the first half of the week, sterling traded quietly, with the news of BNOC's proposed \$3 oil price reduction having little effect. However, the prospects of a price war, following Nigeria's \$5½ cut, moved sterling down sharply with the ERI, after a new 4½-year low of 79.7 on Tuesday, closing the week down 0.6 at 80.1. Elsewhere, the effect of lower oil prices on the debt problems of the weaker oil producers and on the US trade deficit caused the dollar to strengthen generally.

The pound closed in New York on Wednesday at 1.55 and after opening unchanged on Thursday in London, moved down as the dollar strengthened, to close at 1.5446 in London and 1.5414 in New York. On Friday the rate opened at 1.5385 and initially moved back to 1.5366 (ERI 80.5). However, as rumours of the BNOC price reduction went through the market, sterling began to rise and the actual announcement in mid-morning sparked off some good buying interest; as a result, with the dollar little changed elsewhere, sterling reached 1.5440 (ERI 80.9) by noon. As the dollar eased during the afternoon, sterling moved up to 1.5495 before a statement from Kuwait late in the day that BNOC would be undercut by some OPEC members caused a sharp reaction on a thin market and the rate fell swiftly to 1.5435 at the close. On Monday, following the Nigerian decision, the pound opened at 1.5415 and fell quickly to 1.5338 (ERI 80.2), as rumours circulated that the Saudis might offer a cut of \$7½ a barrel, before recovering to trade around 1.53¾ for the balance of the day. Sterling was again a weak and nervous market on Tuesday, with the Gulf producers reported to be discussing a cut of between \$5½ and \$7 a barrel and news that North Sea oil was trading on the spot market at some \$3 below the proposed new price. The pound opened at 1.5330 and immediately began to ease on some early selling out of Europe. Sales of sterling by a UK oil company in mid-morning unsettled the market further and the rate dipped towards 1.52½ although the dollar was easing elsewhere. With the US active buyers of the dollar, sterling continued to drift lower throughout the latter part of the day, closing in London at 1.5207 (ERI 79.7) and in New York at 1.5160. On Wednesday, despite some sizeable commercial selling in mid-morning, sterling traded around 1.51¾ for most of the day before moving up, as the dollar eased, to close at 1.5228. The pound declined by ⅝% against its notional central rate against the ECU (to a discount of 10¾%) and by ⅜% against the deutschemark (3.68⅝) and French franc (10.45⅝); but rose by 1⅛% against a weak Swiss franc (3.10). Three-month Eurodollars fell by ⅛% to 9% and sterling's forward discount widened by 5/16% to 2 5/16%.

After making little progress for most of the week, the increasing likelihood of an oil price war moved the dollar higher - with the dollar's prospects enhanced by the effect of lower oil prices on the US balance of trade and on US inflation/and concern about the debt problems of some of the South American producers reviving signs of a flight to quality. The EMS band remained almost fully-stretched throughout the week, with the deutschemark and guilder alternating at the top (the Germans bought \$50mn., the Dutch \$65mn.) and the Belgian franc remaining at the bottom (with the Belgians selling \$110mn. mainly in guilders). The strength of the deutschemark (2.4205) within the EMS again caused problems for the French franc (6.8665), which was supported by the Bank of France to the extent of \$540mn. (of which \$350mn. was in deutschemarks); both currencies fell 1⅛% against the dollar. Elsewhere the Swiss franc suffered from aggressive selling by the IMM, declining by 2⅝% against the dollar to 2.0360; and the yen fell ½% to 234.25.

After fixing at \$506 on Thursday, gold continued to trade stably until Tuesday when it broke out decisively on the down side, triggered by the fall in oil prices. With sizeable stop loss selling taking place, the price moved down to \$470.25 at the final fixing.

Tms. 23rd February 1983. OP OP