2/2 4 Pt 2

SECRET

1983/9

FOREIGN EXCHANGE AND GOLD MARKETS

JWAOTT

Week ending 2nd March 1983

Oil prices, interest rates and politics produced another week of heavy trading and sharp movements in rates on the foreign exchange markets, although only gold saw much overall change. Sterling was initially steady, despite the disappointing trade figures, but later in the week, as the market began to focus on the forthcoming OPEC meeting, selling pressure developed. After a new low of 1.4975 against the dollar, sterling closed with the ERI down 0.5 at 79.6.

Sterling was in some demand in New York on Wednesday and touched 1.5330 before closing at 1.5255. After opening in London on Thursday at 1.5223, sterling rose to 1.5286 before commercial selling and the conversion of a large sterling borrowing moved sterling down to 1.5195. As the dollar weakened, sterling recovered to close at 1.5295, with the release of the trade figures having had little noticeable effect. On Friday, sterling traded comfortably, closing unchanged against a stronger dollar and with the ERI up at 80.4. With the dollar having strengthened further, sterling traded around 1.52¼ during Monday morning in fairly active two-way trading. The IMM bought dollars heavily during the afternoon and the pound slipped back with other European currencies to close in London at 1.5155 and in New York at 1.5075. Sterling remained a rather nervous market on Tuesday with widespread selling seen during the morning - by a UK oil company and professionals from Europe - and the late afternoon - with the IMM again active. After closing in London at 1.5077, sterling fell to a new low of 1.4975 in New York before closing at 1.5008, and this low was reached again on Wednesday morning before sterling recovered to trade around 1.50½. Later a statement by Algeria that a consensus had been reached on an overall OPEC oil production ceiling moved the rate quickly to 1.51½ before another statement by Saudi Arabia, that the Gulf oil states would cut prices by up to $7 if OPEC failed to reach agreement, moved sterling as rapidly back to trade for the balance of the day around 1.50¾. The pound closed at 1.5067. The pound declined by ¾% against the deutschemark (3.65⅜) and French franc (10.37¾), by ⅝% against its notional central rate against the ECU (to a discount of 10⅜%) and by ¼% against the Swiss franc (3.09⅛). Three-month Euro-dollars fell by ⅛% to 8⅞% and sterling's forward discount was little changed at 2⅜%.

Renewed optimism over a cut in the Fed's discount rate following a decline in the Fed Funds rate, a further reduction in US inflation and a speech from one of Wall Street's senior economic commentators caused the dollar to weaken initially. However, on Monday and Tuesday, the failure to cut the discount rate, despite the favourable factors, caused the market to reassess the prospects for interest rates and with the US trade deficit in January better than expected, the dollar strengthened sharply. Wednesday saw a reaction, but the dollar closed the week with gains of ¼% against the French franc (6.8875) and deutschemark (2.4281), ¾% against the Swiss franc (2.0517) and 1¼% against the yen (237.15). With Kohl's electoral prospects continuing to look bright and the Dutch reducing their discount rate by ½%, the deutschemark moved clear at the top of the EMS, as the band remained almost fully-stretched with the Belgian franc at the bottom. The strength of the deutschemark within EMS caused problems for the weaker currencies and the French sold $1,050mn., the Belgians $290mn. (both mainly in deutschemarks), the Italians $150mn. and the Irish $120mn.

After fixing at $473.75 on Thursday morning, gold began to fall sharply in London on Friday morning. Following a heavy shake-out of speculative positions, a low of $387 was touched in Hong Kong on Tuesday, before the price recovered to close the week at $430.

Gmo.

2nd March 1983.
OP

OS