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FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 9th March 1983

The exchanges saw another week of volatile trading, as the political questions were largely answered and the uncertainties over oil and interest rates continued. The deutschemark's strength, before and after the German election, increased speculation of an early realignment of EMS and heavy support was required for the weaker currencies. Sterling was mainly on the sidelines, but touched a new low against the dollar of 1.4930, and ended the week with the ERI down 0.1 at 79.5 (after 79.2).

Sterling closed in New York on Wednesday at 1.5115 and on Thursday remained in a narrow trading range around this level in modest two-way activity, before moving up in New York to 1.5155. The pound passed another quiet day on Friday, but later in New York, moved lower, on IMM selling, to close at 1.5080. Sterling was largely a bystander to the wild swings in EMS on Monday morning, although, despite opening against the dollar at 1.5165, the strength of the deutschemark caused a fall in the ERI to 79.3. In early afternoon the rate declined to 1.5142, on selling by an oil company, before recovering steadily to touch 1.52 shortly before the close with the ERI back to 79.6. Later the IMM again came in to sell sterling and the pound closed in New York at 1.5125. On Tuesday, after opening at 1.5110, some commercial selling from Scandinavia developed in mid-morning, and with the prospects for agreement at the OPEC conference appearing gloomy, following a statement by Oteiba in the morning and by Calderon in the afternoon, sterling was a nervous market and the rate moved down to close at 1.5056. After the close, further remarks from Volcker expressing concern over recent monetary growth, strengthened the dollar and sterling fell back sharply, to reach a new low of 1.4930 before closing in New York at 1.4950. After opening in London at 1.4980 on Wednesday, with the ERI at a new low of 79.2, good demand for sterling from the Middle East moved the rate up to a high of 1.5097 in the morning before oil uncertainties again caused an easing to 1.5036 at the close. The pound declined by $1\frac{1}{4}\%$ against the deutschemark ($3.61\frac{1}{4}$), by $\frac{5}{8}\%$ against the French franc (10.31) and by $\frac{7}{8}\%$ against its notional central rate against the ECU (to a discount of $12\frac{1}{4}\%$); but was unchanged against the Swiss franc ($3.09\frac{3}{8}$). Three-month Euro-dollars rose by $5/16\%$ to $9\ 3/16\%$ and sterling's forward discount narrowed by $\frac{1}{2}\%$ to $1\frac{1}{8}\%$.

A statement from Volcker that the fall in US inflation provided a background for a sustained drop in interest rates and a deutschemark strengthening on Kohl's electoral prospects, caused the dollar initially to ease, to reach DM 2.3855 at the close on Friday. The main impact of the results of the German election was, in the event, felt within EMS and with Volcker adopting an apparently more pessimistic outlook for interest rates in his testimony before the House Budget Committee, the dollar staged a recovery. Over the week the dollar lost 1% against the deutschemark (2.4025), and $\frac{3}{8}\%$ against the French franc (6.8575); was unchanged against the yen (237.27); and gained $\frac{1}{4}\%$ against the Swiss franc (2.0577). In EMS, the deutschemark's strength caused speculation about a realignment to intensify, particularly following the French decision, after spending \$2.3bn., to stop supporting their cross-rate against the deutschemark and to intervene only as necessary at the $2\frac{1}{4}\%$ EMS margin. After dipping sharply in chaotic trading conditions following this decision, the French franc recovered, on profit-taking and high eurofranc rates, to within the top half percent of the band. The other likely candidates for devaluation within EMS also suffered. The Belgians sold \$780mn. (mainly in deutschemarks) and raised their discount rate by $2\frac{1}{2}\%$ to 14%, but their franc remained at the bottom of the narrow band, $2\frac{1}{2}\%$ below the deutschemark. The Italians sold \$630mn. and moved below the narrow band: the Irish sold \$220mn. and the Danes sold \$200mn.

With the uncertainty over oil prices remaining unresolved, gold traded erratically through the week, but closed little changed at \$426.

9th March 1983.

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