

FOREIGN EXCHANGE AND GOLD MARKETS

JWA

Week ending 16th March 1983

With speculative positions in EMS currencies changing sharply, partly as a result of central bank action, and with uncertainty over oil prices continuing for much of the week, the exchanges remained volatile. The relatively successful conclusion of the OPEC conference gave sterling enough of a boost to withstand the $\frac{1}{2}\%$ cut in base rates, although the possibility of a second cut caused nervousness to return. The ERI, after touching a new low of 79.0, closed the week down 0.2 at 79.3.

The pound closed in New York on Wednesday at 1.5050, and on Thursday, with sterling on the sidelines, moved up to close in London at 1.5110 as the dollar weakened. On Friday, nervousness increased as the rumours from OPEC became more pessimistic and the rate slipped to a low of 1.4960 in the early afternoon; before recovering to close at 1.50 in London and 1.5034 in New York. After opening little changed on Monday, an optimistic statement from Yamani moved sterling to 1.5095 helped by buying from Eastern Europe and by a UK oil company. The market's interest in the pound waned during the afternoon and sterling drifted lower to close against the dollar at 1.5060 and, with other European currencies sharply higher, led by the French franc, with the ERI at 79.0. Later in New York, following the announcement of the OPEC agreement, sterling was in demand and it rose to 1.5255 at best. On Tuesday after again trading up to 1.52 on further good demand from Eastern Europe, rumours, and subsequently the announcement by Lloyds, of a $\frac{1}{2}\%$ reduction in base rates, saw sterling drop to 1.5097 before recovering, despite a strengthening of the dollar elsewhere, to close at 1.5145 with the ERI back to 79.4. The pound held steady after the close, while the Budget details came over the news services. On Wednesday, following press comment on BNOC's oil pricing problems and with the market viewing a second cut in base rates as likely in the near future, the pound again turned easier, moving down to close at 1.5070. The pound declined by $\frac{3}{8}\%$ against the deutschemark (3.59), by $\frac{1}{4}\%$ against the French franc (10.28 $\frac{1}{2}$) and by $\frac{3}{8}\%$ against its notional central rate against the ECU (to a discount of 12 $\frac{3}{8}\%$); but was unchanged against the Swiss franc (3.09 $\frac{1}{4}$). Three-month Euro-dollars were little changed at 9 $\frac{1}{4}\%$ and sterling's forward discount narrowed by 11/16% to 1 3/16%.

Elsewhere attention focussed on EMS. In the early part of the week substantial intervention was necessary as rumours of a realignment strengthened. However, already by Friday evening the pressures were diminishing as the costs of running short French franc positions rose to astronomical levels, and with a tightening of exchange controls in Belgium and a further 5% increase in Danish interest rates on Monday, widespread short-covering caused a sharp improvement in some of the weaker currencies. By Wednesday, however, with the EMS closing in London 2 $\frac{3}{8}\%$ wide between the deutschemark and the Irish punt, there were again signs that pressures were building up. Over the week the Italians spent \$660mn., the French \$550mn., the Belgians \$400mn., the Danes \$390mn. and the Irish \$290mn., while the Germans bought \$270mn. Despite the volatile conditions, there was little overall movement in exchange rates; the deutschemark rose by $\frac{7}{8}\%$ against the dollar (2.3826), the French franc by $\frac{1}{2}\%$ (6.8250) and the Swiss franc by $\frac{1}{4}\%$ (2.0520) and the yen was unchanged (237.25)

Gold traded erratically through the week, rallying to \$440 in New York on Monday evening on the OPEC news, before slipping to \$419 at the final fixing.

16th March 1983.

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