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FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 6th April 1983

BNOC's announcement last Wednesday of their new price proposals initiated a sharp improvement in the market's attitude towards sterling. Following some gains after the announcement last Wednesday, the pound continued to rise throughout the week, with sterling moving back above 1.50 on Tuesday, and the ERI closing the week up 2.4 at 80.9. Elsewhere markets were fairly quiet over the Easter period with the dollar easing as end-quarter pressures on US interest rates began to diminish.

The pound closed in New York on Wednesday at 1.47 and although by the London opening on Thursday, the rate had fallen back to 1.4665, it immediately began to rise on small-scale but widespread buying from London and Europe. By noon sterling had reached 1.4790, but it jumped to 1.4842 over the lunch period as early New Yorkers covered short positions, before closing at 1.4816 with the ERI up 1.0 on the day at 79.5. The official announcement from Lagos that BNOC's price proposals were broadly in line with Nigerian and OPEC thinking was helpful to sterling over a quiet Easter weekend, and the pound moved up, against a softer dollar, to 1.4890 in New York on Monday evening. After trading around 1.49½ for most of the morning in London on Tuesday, a significant purchase by a UK oil company, with the banks reluctant to go short of sterling, saw the rate rise quickly to reach 1.50½ in the early afternoon. New York initially took the dollar higher, and sterling dipped below 1.50 for a time during the afternoon before recovering to close at 1.5008 as the dollar began to ease. With the dollar's fall continuing, sterling moved higher, closing in New York on Tuesday at 1.5085 and reaching 1.5135 on Wednesday morning. At that stage a feeling in the market that the pound had risen a long way in a fairly short period of time and a general strengthening of the dollar moved sterling back to 1.5080. But it soon recovered and shortly after the announcement in mid-afternoon of reassuring statistics on money, wholesale prices and the reserves, touched 1.5183 before easing to close at 1.5160. The pound gained 3½% against the deutschemark (3.65½) and French franc (10.95¾), 2¼% against its notional central rate against the ECU (to a premium of 2¼%) and 2% against the Swiss franc (3.10). Three-month Euro-dollars, after a high of 9¼% on Tuesday, closed down 1/16% on the week at 9¼% and sterling's forward discount narrowed by ¾% to ⅝%.

Initially, a continuation of end-quarter pressures, with Fed Funds trading as high as 11¼% on Thursday, and concern over the extent to which the Fed had tightened monetary policy kept the dollar firm. But as the seasonal pressures began to ease and with the US bond market reacting favourably to an article in the Wall Street Journal quoting a senior Fed official as saying that the recent rise in interest rates had gone too far, the dollar moved lower. Sterling showed the greatest gain against the dollar; of the other currencies, the Swiss franc improved by 1½% to 2.0447, the yen by ⅔% to 237.05 and the deutschemark (2.4115) and French franc (7.2280) by ⅓%. EMS remained almost fully stretched throughout the week with the Danish crown and French franc alternating at the top and the guilder and deutschemark alternating at the bottom. Over the week the Italians bought \$390mn., the French bought \$320mn. (mainly in deutschemarks), the Belgians bought \$130mn. and the Danes \$110mn. (both mainly in guilders) and the Dutch sold \$230mn. (mainly in French francs).

After a quiet start to the week, gold moved higher in New York on Monday afternoon, on the back of demand for silver, to close the week \$10½ higher at \$428.50.

6th April 1983.

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