

FOREIGN EXCHANGE AND GOLD MARKETSWeek ending 13th April 1983

Following some nervousness about a further cut in base rates, sterling resumed its move upwards, as BNOG's major customers indicated acceptance of the recent North Sea oil pricing proposals, and rumours of a June general election began to circulate. The ERI rose 1.9 to 82.8. Elsewhere markets were quiet with the dollar firm and the deutschemark continuing to require support.

After opening in London on Thursday little changed at 1.5135, sterling moved down to close at 1.5068 (ERI 80.6), as the markets began to look for an early cut in base rates despite the Bank's failure to meet the shortage in the money market. On Friday the pound initially drifted down to 1.5020 before substantial buying orders from the Far East, Switzerland and the Middle East brought a reversal to 1.5103 at best. Once this demand had been satisfied, the rate moved back to close in London at 1.5036, after 1.5015. Later in New York, the first news of the acceptability of BNOG's pricing proposals carried the pound to a close of 1.5092, against an otherwise little changed dollar. Full confirmation of the BNOG news over the weekend gave sterling a very firm tone from the outset on Monday and after opening at 1.51, the rate breached 1.52 in the first hour of trading, helped by rumours of a June general election and good commercial demand in London. The pound closed at 1.5244 (ERI 81.6) in London and at 1.5290 in New York. On Tuesday, despite substantial professional selling at times, sterling traded in a narrow range around its opening level of 1.5335, until buying in the US after the London close moved the rate up to 1.5440. With further good commercial demand for sterling on Wednesday, the pound continued to rise, reaching 1.5490 at best during the morning. News that the Bank had lowered its intervention rates in the money markets caused sterling to drop back and with the dollar strengthening on IMM buying, the rate closed at 1.5430. The pound gained  $2\frac{3}{8}\%$  against the deutschemark ( $3.75\frac{3}{8}$ ) and French franc ( $11.26\frac{1}{2}$ ) and  $2\frac{1}{8}\%$  against its notional central rate against the ECU (to a premium of  $4\frac{3}{8}\%$ ) and against the Swiss franc ( $3.16\frac{5}{8}$ ). Three-month Euro dollars were  $\frac{1}{8}\%$  easier at  $9\frac{1}{8}\%$  and sterling's forward discount widened by  $\frac{1}{8}\%$  to  $\frac{3}{8}\%$ .

Despite the announcement of a better-than-expected M1 figure on Friday (a decline of \$100mn.), a sharp fall in the Fed Funds rate and a rising US bond market, the dollar remained firm. It registered gains of  $\frac{3}{8}\%$  against the Swiss franc (2.0520),  $\frac{1}{2}\%$  against the yen (238.20) and 1% against the deutschemark (2.4348) and French franc (7.3010). EMS remained fully stretched throughout the week with the French franc, Danish crown and Irish punt alternating at the top of the narrow band and the deutschemark and guilder alternating at the bottom. A total of \$1060mn. equivalent was spent in defence of the deutschemark, including \$510mn. in France, \$230mn. in Belgium, \$160mn. in Denmark and \$140mn. in Germany itself (mainly in French francs). Support of \$230mn. equivalent was given to the guilder, mainly in Holland in a mixture of currencies. In spite of a weakening lira, the Italians recouped \$580mn.

Gold remained a quiet market. After drifting down to \$421.25 on Friday, the prospect of some stability in oil prices, together with developments in the Middle East, prompted a modest recovery. The final fix was at \$429.25

13th April 1983

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LAMB

RATES, ETC.

10.15 a.m.

10.15 a.m.

7th April 1983

14th April 1983

1.5124

£/\$

1.5335

80.8

Effective exchange rate index

82.5

9/16% p.a. disc.

Forward 3-months

11/16% p.a. disc.

9 $\frac{3}{8}$ %

Euro-\$ 3-months

9 5/16%

5/16% pre.

I.B. Comparison

+ $\frac{1}{8}$ % pre.

2.4135

\$/DM

2.4435

3.65

£/DM

3.74 $\frac{3}{4}$

10.94 $\frac{1}{2}$

£/FF

11.23 $\frac{1}{2}$

237.47

\$/Yen

239.02

\$426.50

Gold

\$436.50

2.0477

\$/S.Fc.

2.0567

3.09 $\frac{3}{4}$

£/S.Fc.

3.15 $\frac{3}{8}$