

# International financial developments

*This article covers developments in the international capital markets and the foreign exchange markets in the first quarter of 1990, and international banking developments in the London market in the fourth quarter of 1989.*

## International capital markets

Total borrowing activity in the international capital markets declined to \$117 billion in the first quarter of 1990 from \$127 billion in the fourth quarter of 1989. The markets were subject to uncertainties over the direction of exchange rates and interest rates, though the latter contributed to an increase in the issue of floating-rate notes. The decline in the Japanese equity markets depressed the primary and secondary markets in Japanese equity warrant dollar bonds, the main source of strength in the eurobond markets in 1989.

### Total financing activity: by euromarket sector<sup>(a)</sup>

\$ billions, by announcement date

	1988	1989				1990
	Year	Year	Q2	Q3	Q4	Q1
<b>Fixed-rate bonds</b>						
Straights	160.0	149.3	34.6	29.2	34.5	41.2
Equity-related	41.8	85.1	27.5	17.2	15.8	11.2
of which:						
Warrants	29.7	69.6	21.9	13.7	13.1	7.2
Convertibles	12.1	15.6	5.6	3.5	2.7	4.0
Bonds with non-equity warrants (currency, gold, debt)	1.2	0.5	0.2	0.2	—	—
<b>Total</b>	<b>203.0</b>	<b>234.9</b>	<b>62.3</b>	<b>46.6</b>	<b>50.4</b>	<b>52.4</b>
Floating-rate notes	23.5	24.2	7.4	7.2	5.7	9.7
Euronote facilities	79.2	66.3	19.9	13.9	19.8	16.1
Syndicated credits	99.4	152.2	25.4	35.6	51.0	38.6
<b>Total</b>	<b>405.1</b>	<b>477.6</b>	<b>115.0</b>	<b>103.3</b>	<b>126.9</b>	<b>116.8</b>

(a) Maturities of one year and over. The table includes euro and foreign issues and publicised placements. Issues which repackaged existing bond issues are not included. Figures may not add to totals because of rounding.

## Bond market

### (i) Straight fixed-rate bonds

The general upward trend in interest rates and the uncertainty over the direction of exchange rates contributed to the unsettled conditions in the major currency sectors. Nevertheless, total issues of straight fixed-rate bonds rose to \$41.2 billion in the first quarter from \$34.5 billion in the fourth.

Total issues of straight dollar bonds rose to \$12.9 billion from \$11.3 billion in the fourth quarter. The market was sustained by international institutions and sovereign issues, which accounted for over half of all dollar issues, an historically high rate. For example, there were \$1.5 billion issues for both the World Bank (the second 'global' bond), and Italy. Corporate borrowers were constrained by the lack of swap opportunities. Japanese companies in particular sharply reduced their borrowing in dollars. In the dollar sector, the auction method of syndication was introduced with a \$771 million issue for the Kingdom of Denmark.

There was a surge of issues in European currencies. This was particularly true for Swiss francs (\$4.6 billion) and ECUs (\$4.9 billion). The Swiss franc sector was relatively subdued early in the quarter but market views that interest rates may have peaked and that the currency was likely to strengthen appear to have encouraged investors into the market. Swap rates also became favourable. In the ECU sector two large issues by the EIB and Italy created benchmarks and liquidity in the 7-year and 10-year maturities respectively, thus helping to stimulate institutional investor interest.

In the deutschemark sector there were \$2.3 billion of issues, almost double the level of the fourth quarter. The sector was affected by political developments—there were very few issues in the weeks preceding the East German elections—and by uncertainties over the future trend of interest rates and the currency. Issues in the sterling market were \$3.4 billion, with most of the issues occurring in January and February when investors were attracted by the strength of sterling and high yields. UK companies were the main issuers.

Despite the uncertainties in the yen markets, and in particular higher interest rates, issues of euroyen bonds were relatively strong at \$6.6 billion. In the fourth quarter of last year and first quarter of this, attractive swap rates led to a high percentage of yen bond issues being swapped. The main borrowers in the market were banks and financial institutions, predominantly from the Scandinavian countries and France, accounting for around 60% of issues. It was also reported that European investors were interested in acquiring yen assets, perceiving themselves to be underweight in that currency.

In the high-yielding Canadian dollar and Australian dollar sectors the markets were weak for most of the quarter.

### Currency composition of fixed-rate bond issues

Percentage of total issues announced

Currency denomination	Straight bonds			Equity-related bonds		
	1989	1990		1989	1990	
	Year	Q4	Q1	Year	Q4	Q1
US dollars	36	33	31	76	70	58
Swiss francs	4	4	11	16	17	30
Yen	15	26	16	—	—	—
Deutschemarks	6	3	6	5	12	6
Sterling	8	4	8	2	—	4
Australian dollars	5	4	4	—	—	—
Canadian dollars	7	6	3	—	—	—
ECU	8	9	12	—	—	—
Other	11	11	9	1	1	2

Among the smaller markets Luxembourg franc issues totalled \$1.6 billion, twice the previous quarterly record. The market was influenced by reforms scheduled for 1 July, when both the public and private placement markets will be liberalised.

### (ii) Equity-related bonds

Primary market activity in the equity-related sector declined significantly in the first quarter of 1990 as total volume fell to \$11.2 billion from \$15.8 billion in the fourth quarter. The fall was concentrated in the warrant sector where dollar issues fell by almost a half to \$6 billion. The main cause was the sharp decline of Japanese equity markets. In contrast to the warrant sector, there was an increase in convertible issues from \$2.7 billion in the fourth quarter to \$4.0 billion in the first.

The decline in Japanese equity prices, which began in January, had an immediate effect on trading in the dollar warrant secondary market. In the primary market many issuers' initial response was to postpone issues for a few days, while coupons also rose. However, in mid-March, the continued fall led to the Japanese securities houses suspending all new issues of equity-related bonds and of straight equities in both the domestic and overseas markets following discussions with the Japanese Ministry of Finance (MoF).

The equity warrant sector was also adversely affected by other factors including a narrowing in the cost differential between euro and domestic Japanese issues. During the quarter some issues on the domestic market traded at a premium to their euromarket counterparts. In addition, the market was unsettled by proposals by the MoF that all Japanese equity warrant eurobonds should be subject to a registration statement requirement in Tokyo at the time of issue, and listed on the Tokyo stock market in order to improve price transparency (see page 240).

### (iii) Floating-rate notes

In the floating-rate note market, issues were \$9.7 billion in the first quarter, the highest rate of issuance since the end-1986 crisis. This recovery in the FRN market reflected the uncertainty over the direction of interest rates.

There was a surge of issues in deutschemarks. The total volume of deutschemark issues, at \$4.5 billion in the first quarter, was \$2 billion greater than issued in the whole of 1989 and by far the largest on record. The demand for floating-rate deutschemark securities appears to have been strong from both domestic and international investors (including Far East investors). A rise in yields on deutschemark securities, combined with the relative lack of an alternative deep floating-rate instrument market in Germany, meant that borrowers have found a ready market for their issues. In 1988 and 1989 banks and financial institutions tended to dominate the sector but in the first quarter German companies and some sovereign entities were among the largest borrowers.

By contrast, issues of eurodollar FRNs declined to \$0.4 billion—the lowest since the fourth quarter of 1977. This was a result of concerns over the quality of subordinated debt of some US banks and the winding down of Drexel Burnham Lambert's FRN portfolio. Activity in the sterling FRN market was moderate, accounting for 24% of the total, and was concentrated in the first part of the quarter when sentiment towards sterling was positive and yields were attractive to investors. The market continued to be dominated by UK building societies' issues.

### Euronotes and other facilities

The volume of announcements of new euronote facilities declined from \$19.8 billion in the fourth quarter of last year to \$16.1 billion in the first quarter of this. Borrowers from the major OECD countries accounted for the largest amount of new programmes (65%). Eurocommercial paper (ECP) accounted for the largest volume of new facilities with \$8.9 billion of announcements, while euro-medium-term notes (EMTNs) and ECP programmes with an EMTN option accounted for \$6.8 billion (the highest quarterly volume ever recorded). Following a seasonal decline at the end of the previous quarter, the value of new euronotes outstanding increased sharply during the quarter (from \$79.2 billion to \$89.0 billion) as recently established facilities became operational.

#### Announced euronote facilities<sup>(a)</sup>

	1988		1989			1990
	Year	Year	Q2	Q3	Q4	Q1
Committed <sup>(b)</sup>	3.7	2.9	0.8	1.3	0.2	0.1
Uncommitted	75.5	63.3	19.1	12.6	19.5	16.0
<b>Total</b>	<b>79.2</b>	<b>66.3</b>	<b>19.9</b>	<b>13.9</b>	<b>19.8</b>	<b>16.1</b>
<i>of which:</i>						
Major OECD	44.9	36.5	8.6	9.8	8.6	10.6
Minor OECD	28.3	24.4	8.3	3.3	9.8	4.3
Other	6.1	5.4	3.0	0.8	1.4	1.2
<b>Selected nationalities of borrower</b>						
United States	9.8	11.7	2.6	5.0	1.0	4.1
United Kingdom	11.4	5.8	2.7	1.3	1.3	0.6
Australia	6.1	10.5	4.4	0.7	3.9	2.8
Japan	6.8	7.9	2.2	1.2	2.5	2.1

(a) Include all facilities providing for the use of euronotes (including note issuance facilities, revolving underwriting facilities, multiple-option facilities which incorporate a note issuance option, eurocommercial paper programmes and euro medium-term note programmes).

(b) Underwritten or otherwise backed by bank commitments.

In the ECP market attention focused increasingly on the credit quality of issuers following the series of defaults experienced in 1989, the default of Drexel Burnham Lambert early this year, and the downgrading of a number of US securities firms. As investor demand for lower-rated or unrated paper declined, commission charged by dealers to resell such paper increased, while spreads over Libor widened (by about five basis points). Several major companies, such as General Electric Credit Corporation and Shell, took advantage of investor preference for highly-rated issuers and announced large ECP programmes (\$2 billion and \$1 billion respectively).

In order to increase profitability, dealers were reported to be increasingly moving towards a fixed commissions system (as is the case in the eurobond market) for

placement of paper as well as higher arrangement fees for new programmes.

Domestic and offshore markets for short-term note issue were liberalised further. For instance, the Bank of England allowed UK corporations to issue sterling medium-term notes, and in Japan the MoF announced amendments to its regulations on euro-CP issues by domestic firms which allowed some firms to issue such instruments for the first time from early April. The MoF also broadened both the euro and domestic markets by lowering the rating and capital requirements for CP corporate issues, and allowing securities houses to issue CP for the first time from April.

#### International syndicated credits

The value of new international syndicated credits announced declined to \$38.6 billion in the first quarter of this year compared with \$51.0 billion in the fourth quarter of last year. This lower level of activity primarily reflected a contraction in the value of credits arranged to finance mergers and acquisitions (M&A) by US and UK corporations. Credits arranged for the financing of M&A, which had reached a record high of \$22 billion in the fourth quarter, nevertheless amounted to \$11.5 billion in the first quarter.

Banks involved in lending for leveraged buyouts (LBO) were reported to be more cautious following the recent difficulties in this sector, requiring more detailed descriptions of transactions and more conservative projections about expected cashflows and asset disposal values. Although some LBO transactions which were linked to asset sales faced difficulties in syndication, lenders remained committed to such transactions provided that borrowers were in a sufficiently strong financial position.

Partly offsetting the decline in merger and acquisition activity, some sectors such as aircraft and property financing remained relatively buoyant. Italian financial institutions involved in property lending were particularly active, with a large number of facilities arranged in ECU. Combined with a large acquisition-related deal this contributed to making the ECU the third most heavily used currency (15%) in the first quarter.

Bankers were cautious about lending to Eastern European governments and enterprises given the increase in the external indebtedness of such countries and the uncertainties over their economic performance in the

#### Announced eurocurrency syndicated credits<sup>(a)</sup>

\$ billions

	1988		1989		1990	
	Year	Year	Q2	Q3	Q4	Q1
Major OECD	70.5	99.1	14.9	16.1	37.7	23.4
Minor OECD	18.3	25.7	5.1	9.7	7.1	9.0
Developing countries	9.3	25.1	4.7	9.4	5.2	6.2
Eastern bloc	1.2	2.2	0.7	0.3	0.8	—
Other	0.2	0.2	—	—	0.1	—
<b>Total</b>	<b>99.4</b>	<b>152.2</b>	<b>25.4</b>	<b>35.6</b>	<b>51.0</b>	<b>38.6</b>

(a) Includes those syndicated loan facilities which may allow a borrower to increase its liabilities partly or wholly in foreign currency (from the borrowers' point of view) and/or involving an international capital flow.

short to medium term. Similar caution was also expressed with respect to the financing requirements of Chinese borrowers, reflected in a hardening of terms on recent deals. Lending to less developed and newly industrialised countries increased by \$1 billion to \$6.2 billion. In addition, the syndicated credit market witnessed some revival of lending for entities from highly indebted countries such as Chile, Morocco and Ghana.

Banks continued to expand their operations in the secondary loan market by acting as principals and agents in transactions between buyers and sellers. The scope for this type of activity is reported to have widened in recent years as syndicated lending has shifted somewhat from relationship to transactions-driven deals. The syndicated credit market witnessed a number of other innovations such as the first transaction to be backed by Italian car loan receivables and the first facility to incorporate an interest rate reset mechanism similar to that of variable rate notes (VRNs), whereby the initial interest rate margin over Libor will be reset at periodic intervals.

#### International banking developments

##### The London market

Overall, UK banks' external business grew more slowly *in the fourth quarter of 1989* than in the previous quarter. Cross-border claims increased by \$15.3 billion (1.7%) and deposits rose by \$10.2 billion (1.0%). A reduction in non-bank deposits (\$9.3 billion) contributed to the slowdown. Over the year as a whole, cross-border claims rose by \$55.7 billion, in comparison to increases of \$35.3 billion in 1988, \$87.1 billion in 1987 and \$92.4 billion in 1986. 1989 saw both an increase in interbank business and a sharp acceleration in non-bank business (\$13.4 billion).

The increase in cross-border claims in the fourth quarter was predominantly within the BIS industrial area (\$11.4 billion), with lending to European Community countries accounting for most of the increase. The largest single rise in UK banks' lending was to banks in France (\$4.1 billion).

Following their normal seasonal pattern, banks in Japan reduced their business in the fourth quarter. UK banks' lending to banks in Japan fell by \$1.6 billion while deposits from banks in Japan fell by \$3.7 billion. The fourth quarter liabilities figures were also influenced by European Community countries, most notably by increased deposits from banks in West Germany (\$10.3 billion).

Japanese banks' share in external lending by banks located in the United Kingdom fell by 0.4 of a percentage point to 38% in the fourth quarter of 1989. British-owned banks' share of lending also fell, to 14.6% (0.8 of a percentage point). Both the American banks and the 'other overseas banks' (including consortium banks) increased their shares, to 13.8% and 33.6% respectively.

### Cross-border business of banks in the United Kingdom

\$ billions: changes exclude estimated exchange rate effects

	1987	1988	1989				Out- standing at end- Dec. 89	
	Year	Year	Q4	Q1	Q2	Q3		Q4
<b>Liabilities vis-à-vis:</b>								
BIS industrial area	56.9	41.2	-10.2	37.4	-6.0	18.3	-2.4	659.5
of which:								
United States	14.1	7.7	0.6	-0.6	-13.9	-2.6	-9.8	142.1
Japan	13.7	17.9	-6.1	16.8	-8.4	13.5	-3.7	110.8
'Offshore' banking centres	4.3	-2.4	-4.8	4.8	2.3	0.3	-0.8	120.3
Sub-total	61.2	38.8	-15.1	42.2	-3.7	18.6	-3.3	779.8
Outside reporting area								
Developed countries	3.0	5.7	-0.2	2.2	0.8	2.3	1.1	31.1
Eastern Europe	-0.1	1.1	1.4	-1.0	0.8	0.6	—	9.8
Oil exporters	0.2	6.8	1.7	2.1	3.5	-0.4	-1.7	55.6
Non-oil developing countries	8.8	-4.3	-0.6	0.3	-1.1	2.3	0.8	49.3
of which, Latin America	3.0	-1.1	0.7	-0.6	-1.4	0.6	0.3	5.6
Sub-total	11.9	9.4	2.3	3.6	4.0	4.8	0.2	145.8
Other (a)	21.6	16.0	16.2	-5.1	-2.6	7.7	13.3	102.2
Total	94.7	64.3	3.5	40.7	-2.3	31.1	10.2	1,027.8
<b>Assets (b) vis-à-vis:</b>								
BIS industrial area	80.6	46.5	1.3	31.2	-8.1	15.7	11.4	668.4
of which:								
United States	29.0	-10.8	-2.1	3.8	-9.3	6.4	—	129.7
Japan	38.5	42.5	-0.2	9.5	-14.5	16.2	-1.6	211.9
'Offshore' banking centres	4.0	-9.0	-6.4	-5.0	8.4	3.0	1.5	119.0
Sub-total	84.6	37.4	-5.0	26.2	0.3	18.7	12.8	787.4
Outside reporting area								
Developed countries	-1.5	-1.9	—	-1.6	-0.6	-0.5	0.7	32.5
Eastern Europe	0.6	2.3	0.5	0.6	0.9	0.1	0.2	24.7
Oil exporters	-0.4	0.7	0.4	—	-0.1	-0.8	-0.5	18.9
Non-oil developing countries	-2.4	-6.5	-1.4	-0.8	0.4	-0.9	-2.1	45.2
of which, Latin America	-2.3	-3.9	-1.1	-0.4	—	-0.9	-1.3	28.0
Sub-total	-3.7	-5.5	-0.4	-1.8	0.6	-2.1	-1.7	121.3
Other (c)	6.0	3.9	-0.4	0.6	-2.7	0.6	4.2	15.2
Total	87.0	35.8	-5.9	25.1	-1.9	17.2	15.3	923.9

(a) International organisations, unallocated and international issues of securities.

(b) Including securitised lending.

(c) International organisations and unallocated.

At the end of the fourth quarter the proportion of UK banks' external lending denominated in dollars fell to 53.4% of the outstanding total, a drop of some 2.6 percentage points. Sterling lending also fell, to 7.8%, while at end-December 1989 deutschemark and yen denominated lending both accounted for 11.7% of the total. The shares of the Swiss franc and the ECU remained fairly constant at 3.9% and 2.9% respectively.

UK banks' international business increased on both sides of the balance sheet during the first quarter of 1990: claims rose by \$28.5 billion (2.4%) and liabilities increased by \$35.1 billion (2.9%). A 12.4% growth in liabilities to non-banks overseas (\$24.2 billion) was mainly attributed to the 'other overseas' banks sector (\$16.9 billion).

The largest increase in international business was again reported by the 'other overseas' banks sector (liabilities \$35.6 billion, claims \$32.9 billion). Rises in foreign currency claims on both own offices and other banks (\$9.9 billion and \$9.8 billion respectively) and a substantial growth in liabilities to non-banks overseas (\$16.9 billion) were the main factors. Modest increases were reported in the international activities for both the British and American banks.

In contrast, the international business of the Japanese banks contracted during the first quarter. This contraction

is unusual as Japanese banks' normal seasonal pattern is to increase business during the first quarter. Most of the decrease in Japanese banks' assets was due to reduced activity in the interbank market overseas. Total CDs issued fell by \$14.6 billion (11.3%) during the first three months of 1990; Japanese banks accounted for \$12.2 billion of this fall.

### Foreign exchange and gold markets

(This section reviews the three months to end-March)

Foreign exchange market activity was influenced principally by political developments in Eastern Europe and the weakness of the yen. The dollar initially lost ground to European currencies, but from early February it benefited from the uncertainties of German economic and monetary union and recovered its earlier losses. Against the yen, the dollar traded narrowly until after the Japanese elections; it subsequently appreciated steadily against the Japanese currency, which was undermined by capital outflows and stock market weakness.

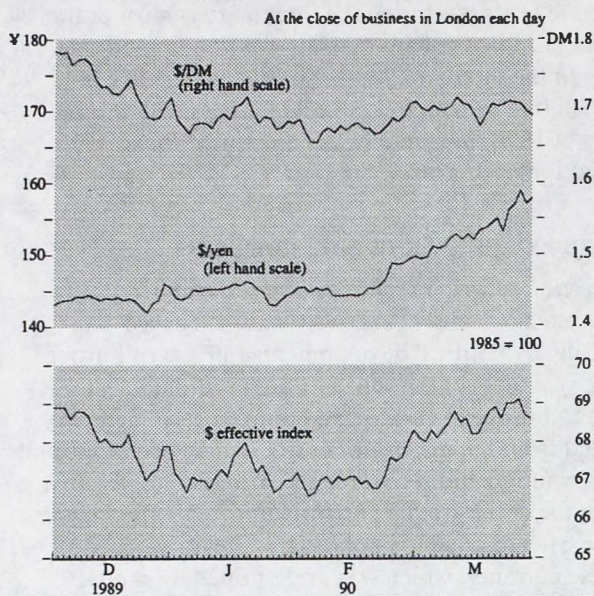
#### US dollar

Having opened on 2 January at DM 1.6855 and ¥144.10, the dollar fell against most currencies, continuing the trend evident during the last quarter of 1989. News of a sizable increase in the National Association of US Purchasing Managers' index provided temporary relief for the dollar, which advanced to ¥146.85 and DM 1.7352 on 3 and 4 January. However, unexpected reports of dollar sales by the Bundesbank caused the downward pressure on the US currency to be re-established. Smaller-than-expected growth in US non-farm payrolls in December and a ½% fall in leading US prime rates contributed further to the dollar's weakness and it touched DM 1.6630 on 8 January. Political uncertainties in Eastern Europe provoked nervous movements on the exchanges. Nationalist tensions in the Soviet Union initially boosted the dollar, but it surrendered its gains as rumours circulated of imminent rises in Swiss and German interest rates, and sharp falls were seen in US bond and equity prices.

Having touched DM 1.6705 and ¥142.50 on 29 January, the dollar traded narrowly with its upside potential limited by political developments that were considered positive for the deutschemark. The possibility that short-term German interest rates might be raised caused the dollar to dip to DM 1.6495 on 7 February—a two-year low. However, the immediate prospect of this rise faded and, amid concern about the potentially inflationary implications of German unification, the dollar was pushed higher as dealers covered short positions. A level of DM 1.7052 was seen in response to a reduced US trade deficit in December, but weak industrial production data and falling capacity utilisation figures caused the dollar to ease and it closed on 28 February at DM 1.6937.

Against the yen, the dollar remained locked between ¥144 and ¥146 during the first half of February. The LDP's victory in the Japanese elections on 18 February initiated

## Dollar exchange rates



short-term profit-taking sales of the yen, but more persistent downward pressure emerged in association with the sharp falls in Japanese equity prices. Although the market perceived that an increase in interest rates might be necessary to help support the yen, such a measure might have caused difficulties for the already weakened stock market. Sensing a policy dilemma for the Japanese authorities, the market intensified the downward pressure on the yen, despite reports of heavy and persistent intervention by the authorities.

The steadiness of the US economic and political situation attracted a steady inflow of funds and, encouraged by renewed fears about the effects on German inflation of monetary union between East and West Germany, the dollar edged higher. However, dealers were cautious about testing the US currency's upward potential in view of reports of concerted central bank action directed at constraining its rise. As a result, dollar/deutschmark trading was restricted to a narrow range. The dollar touched DM 1.7220 on 13 March before surrendering some of its gains as President Bush reiterated his view that US interest rates should be kept down. Following the conservative parties' victory in the East German election, the deutschmark strengthened markedly and the dollar fell to DM 1.6790 on 19 March. However, the release of figures showing a larger than expected increase in the US CPI subsequently boosted the dollar, as did escalating tension in Lithuania and reports that East Germans were likely to be able to convert their earnings into deutschmarks at parity. The US currency touched DM 1.7210 on 26 March, but fell back as the Lithuanian crisis eased.

In the meantime, the dollar continued its rapid appreciation against the yen. The long-awaited 1% rise (to 5.25%) in the Japanese discount rate on 20 March failed to lift the yen as Japanese investors continued to take the view that investment opportunities overseas were a great deal more favourable than those available

domestically. The continued frailty of the Tokyo equity market ensured that sentiment towards the Japanese currency remained negative and the dollar climbed to ¥159.20 on 28 March before closing the quarter at ¥157.85 (up 9.8%), DM 1.6937 (up 0.1%) and Sw.Fc. 1.4990 (down 2.8%). In effective terms, the dollar gained 1.9% to 68.6 (1985 = 100).

## EMS

Tensions caused by the strength of the deutschmark quickly subsided as the Italians announced that the lira was to join the narrow band of the ERM with effect from 8 January. The floor of the previous 6% band was retained—implying a technical devaluation of about 3¼% of the central rate against the other currencies. Confidence in the system was bolstered by this development and, accordingly, there was a tendency for funds to move into the high-yielding lira, which quickly became established in the highest position within the band. At the same time, the displaced deutschmark slipped to about ½% below the top of the band, while the Belgian franc, Danish krone and French franc all occupied the lowest position at some point.

The end of February saw the new configuration stretched to the limit for the first time between the Italian lira at the top and the Belgian franc. However, the pressure quickly subsided, permitting the Belgians to announce that the convertible and financial francs were to be unified. During March, the deutschmark (tracked by the Dutch guilder) continued to weaken within the band, essentially over worries about the possible impact of German economic and monetary union. As the quarter drew to a close, the lira maintained its strong position while the other narrow band currencies converged to become clustered around the foot of the band. The narrow band ended 1½% wide between the Italian lira at the top and the Belgian franc.

With the lira operating within the narrow band, the Spanish peseta is now the only currency in the ERM subject to the wider 6% band. However, the peseta traded within the limits of the narrow band for most of the period under review.

## Gold

Having been fixed at \$401.65 on the morning of 2 January, gold edged higher on a mostly firmer trend. Political uncertainties in Eastern Europe, the weakness in bond markets and occasional bouts of nervousness on the stock markets combined to encourage investors to regard gold as a useful hedge. Problems in bringing some new mines into operation and reports of US proposals to sell part of the IMF's stock caused the price to soften briefly, but confidence quickly returned and gold rose to a fixing high for the period of \$423.75 on 7 February.

Gold was restricted to a relatively narrow range during much of the remainder of February, a wave of selling inspired by fears of forced sales by Drexel Burnham Lambert Trading Corporation following their collapse

being offset by demand associated with falls in equity prices. However, options-related trading and disappointment that the price had not been sustained above \$420 caused gold to fall sharply at the end of the month and, in response to the strong performance of the dollar, it fell to \$397.25 on 13 March and \$389.90 on

21 March. A modest recovery was in train when, on 26 March, substantial amounts of gold were reported to have been sold by a Middle Eastern bank. Gold plummeted to a six-month fixing low of \$368.00 on 27 March and the final fixing of \$368.50 represented a fall of \$32.50 (8.1%) over the quarter.