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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 2nd June 1982

The dollar set new, recent high marks this morning - with interest rates now firming behind it - before the Bundesbank's aggressive intervention engineered a turn. Nonetheless it was still well above yesterday's levels until late in the day when - despite a lacklustre bond market and continuing firmness in funds - a significant sell off occurred. Sterling again performed well. The ERI rose from 90.5 to 90.7.

New York did little to disturb the exchanges yesterday and sterling closed there at 1.7880. This morning, the pound began at 1.7903 but, with the dollar firming rapidly from the outset, this proved too ambitious and sterling was traded down to 1.7815. This was the day's low point (hardly below yesterday's) and, though tested again, it was not breached. At this stage the pound fetched DM 4.26½. Most of the rest of the session was passed narrowly around 1.7840 and, as the dollar declined late in the day, the pound advanced to close at 1.7875 and trade on up to 1.7920 in the twilight hour. Three-month Euro-dollars (14¾%) gained 3/16%, the sterling deposit (13 3/16%) lost ¼%. The forward premium widened only to 1 11/16% p.a. so that the covered differential fell to ¼% in London's favour.

The pound finished only a touch firmer in Germany (4.24½) but gained ¼% in each of France (11.06) and Switzerland (3.62½). The deutschemark closed little different (2.3750, after 2.3937) and later improved to 2.3670. The Bundesbank sold \$100mn. early this morning and a further \$31mn. at the fixing. The Swiss franc finished at 2.0257 (after 2.0462) and was later 2.0120. The French franc closed 6.1967 (after 6.24) and was later 6.16. The Bank of France sold \$62mn. as the DM cross-rate neared 2.61; it ended the day at 2.60½. EMS finished almost fully-stretched between the deutschemark and Belgian franc (44.89). The Belgians spent \$26mn.-worth of deutschemarks and \$1mn.-worth of Swiss francs. The lira (1316.50) was 2 11/16% distant. The Japanese sold a further \$66mn. in New York yesterday and \$88mn. in Tokyo this morning. The yen traded to 246.30 in London before closing at 244.95. The Canadians shelled out \$315mn. yesterday in support of their ailing dollar and lost over \$100mn. again today.

Gold was sold down to \$315 in Hong Kong this morning but thereafter recovered on short-covering. Fixings were \$316.80 and \$318.50. Later the metal was bid up to \$321 before closing around \$319.50.

Operations:	Market	+	\$21mn.
	Interest	+	8
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		+	\$29mn.
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US BOND AND MONEY MARKETS

Wednesday, 2nd June 1982

Federal Funds

Opening: 13 $\frac{1}{4}$ %
Range: 5% - 14 $\frac{1}{4}$ %
Close: 5%

US Governments (NY closing bids)

2-year: 99 $\frac{1}{4}$ (-) 13 15/16%
5-year: 99 $\frac{1}{2}$ (-) 14%
10-year: 99 $\frac{1}{2}$ (+ $\frac{1}{8}$) 13 13/16%
30-year: 103 (+ $\frac{1}{4}$) 13 9/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{1}{4}$ %
1-month: 14 7/16%
3-months: 14 9/16%
6-months: 14 $\frac{5}{8}$ %

Federal Reserve Operations:

Overnight repurchase agreements
for system account with Fed Funds
at 14%. Stop rate 12.81%.

Sold \$220mn. Treasury Bills for a
customer.

Indicators

Factory orders -2.3% in April (c.f. +0.3% in March).

Single family home sales -15.3% in April (to the lowest
figure on record).

Comment:

The market remained in a narrow range today, although both the falling Funds rate and the Fed action were helpful, as were the economic statistics released. Market psychology is, however, extremely poor with concerns that the size of the Treasury's financing requirements during the remainder of the year will prevent any significant decline in interest rates. Furthermore, fears about the July bulge in money supply are already affecting the market, leading to the belief that any further scope for easing by the Fed is limited.

3rd June 1982.

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