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SECRET

1.7765 90.9

THE DEPUTY GOVERNOR

$\frac{3}{8}$ down on \$
0.1 up on ERM

FOREIGN EXCHANGE AND GOLD MARKETS

4.28 $\frac{1}{4}$

Tuesday, 8th June 1982

The dollar scored further substantial gains today as the traditional flight to safety followed dealers' continuing appraisal of events in the Middle East. Interest rates were little changed and there were no fresh domestic developments to explain its renewed strength. The deutschemark again suffered as much as most as funds flowed back into the other EMS currencies. Sterling held up well this morning but gave up ground once New York returned. The ERI closed unchanged at 90.9, after 91.1 this morning.

The pound advanced strongly to close at 1.7985 yesterday in New York, where the dollar was generally somewhat easier. This morning sterling opened at 1.7965 and, although the dollar quickly turned firmer, traded quietly and comfortably, falling no lower than 1.7895 throughout the morning. Returning Americans, however, bid the dollar on all fronts. The pound retreated at an orderly pace to close at 1.7820, after touching 1.78. The $\frac{1}{2}$ % reduction in Clearing Banks' Base Rates, while having little effect on spot sterling, yet provoked a substantial widening of forward margins. The three-months' moved out by $\frac{1}{4}$ % to 2 $\frac{5}{16}$ % p.a. although a reduction of $\frac{1}{8}$ % in the sterling deposit (12 $\frac{3}{4}$ %) was almost matched by a 1/16% decline in the comparable Euro-dollar deposit (14 $\frac{3}{4}$ %). As a result, the covered differential rose sharply to 5/16% in London's favour.

The pound was a touch firmer in Paris (11.11 $\frac{1}{4}$), gained $\frac{1}{4}$ % in Zurich (3.64), $\frac{3}{8}$ % in Frankfurt (4.27 $\frac{3}{4}$). The Swiss franc was well wanted this morning following yesterday's jump in deposit rates and touched 2.0147 (and 0.84 $\frac{3}{4}$ to the DM), only to fall away this afternoon to close at 2.0427 (0.85 $\frac{1}{2}$ to the DM). The Swiss bought yen worth \$10mn. The deutschemark itself lost a further $\frac{3}{8}$ % to the dollar (2.4005). The Belgian franc (45.33) again finished 2 $\frac{1}{2}$ % from the deutschemark in EMS, the Belgians selling \$6mn.-worth of deutschemarks. The lira (1326.50) closed only barely outside the 2 $\frac{1}{2}$ % band and all other member currencies made significant gains on the deutschemark. The French franc (6.2360) improved from 2.60 $\frac{3}{8}$ to 2.59 $\frac{3}{4}$ against the deutschemark, enabling the Bank of France to recoup \$95mn. The Irish, too, bought \$4mn. The yen was not supported in Tokyo this morning. It closed easier in London at 246.92.

Gold was bid up to \$336 in New York yesterday but was sold back in the Far East this morning and traded nervously around \$330 throughout the day. There was no certain trend and the price was often subject to sudden changes of direction. Fixings were \$330.90 and \$328.75 and, as Europe closed, the US looked ready to bid the metal up again.

Operations:	Market	+ \$6mn.
	Sundries	+ 9
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		+ \$15mn.
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JGH

8th June 1982.

JGH

US BOND AND MONEY MARKETS

Tuesday, 8th June 1982

Federal Funds

Opening: 13 $\frac{5}{8}$ %
Range: 13 $\frac{1}{4}$ %-13 $\frac{5}{8}$ %
Close: 13 $\frac{1}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{1}{2}$ (- $\frac{1}{4}$) 14 1/16%
5-year: 98 $\frac{7}{8}$ (- $\frac{1}{8}$) 14 1/16%
10-year: 98 $\frac{7}{8}$ (- $\frac{1}{4}$) 13 15/16%
30-year: 102 (- $\frac{1}{2}$) 13 11/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{3}{8}$ %
1-month: 14 $\frac{1}{2}$ %
3-months: 14 $\frac{3}{8}$ %
6-months: 15 1/16%

Federal Reserve Operations:

\$1bn. customer repurchase
agreements with Fed Funds at 13 $\frac{3}{8}$ %.
Stop rate 13.31%.

Bought \$225mn. Treasury Bills for
a customer.

Indicators

Comment:

Market psychology remains extremely bad, with the absence of any budget agreement the main stumbling block. The market failed to hold the modest gains seen on Monday and prices opened lower and drifted down in another very quiet session, despite some sizeable Middle East buying. The market closed at its lows.

9th June 1982.

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