SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 9th June 1982

Another formidable display by the dollar, with the Middle East conflagration the only abiding factor. Interest rates, however, turned firmer - in the Euro-dollar market at least - as the dollar strengthened. Sterling, for the most part little troubled, eased back in concert with others. The ERI closed unchanged at 90.9.

The pound finished yesterday at 1.7790 in New York where the dollar was generally a good deal firmer. This morning, the dollar opened yet stronger. Sterling, however, began at 1.7810 and quickly settled back to around 1.7775, a level which persisted through the first hour. Professional selling from Amsterdam took sterling back to 1.7746 but the earlier range was soon re-established. The dollar surged again towards mid-day and sterling was carried back to 1.7720, only to recover once again to 1.7780 before closing at 1.7759. Three-month Euro-dollars hardened by 3/16% to 14 15/16%, while the comparable sterling deposit put on 1/16% (12 13/16%). The forward premium, however, narrowed by ⅛% to 2 3/16% p.a.

The pound added ⅜% in Zurich (3.64¾), lost as much in Frankfurt (4.27¼), but gained ⅝% in Paris (11.17⅞). The deutschemark eased to 2.4055 (after 2.4180) after sales by the Bundesbank of $104mn. The Swiss franc weakened to 2.0520 (later 2.06). EMS was fully-stretched at times, although the Belgian franc (45.46) closed slightly less than 2⅛% from the deutschemark. The Belgians sold $35mn. and $31mn.-worth of deutschemarks. The Germans bought Belgian francs worth $14mn. The lira (1329.62) was for much of the day inside the 2⅛% band but closed at 2⅜% distance from the deutschemark after official Italian purchases of $56mn. The French franc (6.2950) opened a comfortable 2.59% to the deutschemark but dropped precipitately to nearly 2.62 early this afternoon. The French sold $136mn.-worth of deutschemarks and the closing cross-rate was 2.61 11/16. Elsewhere the Norwegians took in $20mn. and the Swedes sold $55mn. The Canadians reported sales yesterday of $272mn. Their dollar hit an all-time low today (1.2627). The Japanese spent $50mn. in New York yesterday but nothing in Tokyo this morning. The yen closed at 248.45 in both Tokyo and London.

Gold suffered another eventful day. Having touched $335 again in New York yesterday, it relapsed once more in the Far East and opened in London around $331. Very heavy selling from the Middle East (probably from private sources) brought a collapse to $326 before the fixing, which set a level of $326.75. The rest of the day saw nervous fluctuations in a narrow band around this level. The later fixing was $326 and the close around $327.50.

Operations:	Market	+	$1mn.
	EEC	−	68
	Bangladesh	−	14
	National Water Council (PSB G'teed)	+	16
	Interest	+	6
	Sundries	+	1
		−	$58mn.

9th June 1982.

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US BOND AND MONEY MARKETS

Wednesday, 9th June 1982

Federal Funds

Opening: 13⅜%

Range: 13⅜% - 15½%

Close: 15½%

US Governments (NY closing bids)

2-year: 99⅜ (-⅛) 14⅛%

5-year: 98¾ (-⅛) 14 1/16%

10-year: 98¾ (-⅛) 14%

30-year: 102 (-) 13 11/16%

Euro-dollars (Today's opening
London bid)

7-day: 14%

1-month: 14⅜%

3-months: 14 13/16%

6-months: 15 1/16%

Federal Reserve Operations:

Bought Treasury Bills for system
account with Fed Funds at 13½%.

Bought $350mn. Treasury Bills for
a customer.

Indicators

Comment:

There was more retail activity in the bond market, with some
heavy US institutional selling counter-balanced by some large
Middle East buying (for the third consecutive day). Prices opened
unchanged and drifted lower during the morning, although the Funds
rate remained steady at 13⅜%. The absence of the Fed at the normal
time provoked some selling and by early afternoon the long bond had
shed half a point. The Fed's late entry to buy Treasury Bills for
its own account put new heart into the market and most of the losses
were recouped.

At the end of the day the Treasury announced a new two-year
note of $5.5bn. and a four-year note of $4bn.

10th June 1982.

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