THE DEPUTY GOVERNOR

#### FOREIGN EXCHANGE AND GOLD MARKETS

### Friday, 11th June 1982

It was an eventful day on the exchanges. The passage overnight of resolution in the US House of Representatives calling for a budget deficit of \$99bn. in fiscal 1983 made for a significantly weaker dollar from the outset and the declaration of a ceasefire by the Israelis in Lebanon during the morning added to the easier tone. The proximity of the weekend meant that there was the now familiar build up of speculative pressure within EMS against the French franc and widespread expectations of a weekend realignment; the franc was only held within the margins at the cost of massive support. Sterling initially suffered from concerns over developments in the Falklands, but these eased as the day wore on and the ERI closed unchanged at 90.4, after 90.0 at the opening.

The selling of sterling seen in London yesterday afternoon persisted in New York during the evening where the pound closed at 1.7625. News of the budget vote came too late to affect the exchanges in New York but the dollar weakened sharply in the Far East in the early hours and opened significantly lower in London. Sterling did not, however, respond with the other currencies and from an opening level of 1.7705 moved steadily back in early business to 1.7645 under pressure of widespread small-scale selling. This dwindled by mid-morning and when the ceasefire announcement came and the dollar again turned easier, sterling started to firm, reaching 1.7775 shortly after noon. With the focus of attention switching to Europe, and a disappointing response by the US bond market to the budget vote and an unchanged US wholesale price index in May, the dollar recovered a little of its lost ground during the afternoon and sterling drifted back to close at 1.7726. Three-month Euro-dollars ended the day 1/16% easier at 14%%. Sterling's forward premium was unchanged at 1 15/16% and interest parity prevailed.

The pound lost \( \frac{1}{4} \) in Germany (4.23\( \frac{1}{4} \)), was unchanged in Switzerland (3.62\( \frac{1}{4} \)) and a touch firmer in France (11.11\( \frac{1}{4} \)). The dollar lost \( \frac{1}{4} \) in Frankfurt (2.3910) and Zurich (2.0460) but was little changed against a weak French franc (6.2725). The French franc moved to the bottom of EMS and the French spent \( \frac{5}{4} \)3mm. equivalent, virtually all in deutschemarks, to hold it within the band. The Germans and the Dutch bought French francs worth \( \frac{5}{2} \)8mm. and \( \frac{5}{2} \)mm. respectively. The Belgian franc (45.21) also needed sizeable support and the National Bank sold a cocktail worth \( \frac{5}{6} \)6mm., with the Bundesbank and the Nederlandsche Bank buying Belgian francs worth \( \frac{5}{4} \)4mm. and \( \frac{5}{2} \)mm. respectively. The Danes and the Irish each bought \( \frac{5}{2} \)mm. Elsewhere, the Norwegians bought \( \frac{5}{6} \)8mm. The yen gained \( \frac{5}{6} \)8 to close at 247.55 without assistance from the Bank of Japan.

The unexpected ceasefire in the Middle East took some of the shine off gold. The price slipped slowly over the day fixing at \$327 in the morning and \$325.25 in the afternoon.

Operations: Market - \$20mn.
Sundries + 2
- \$18mn.
Overnight + \$5mn.

## US BOND AND MONEY MARKETS

# Friday, 11th June 1982

## Federal Funds

Opening: 13%%

Range: 1318 - 1418

Close: 14%

US Governments (NY closing bids)

2-year: 99¼ (-¼) 14 3/16%

5-year: 98½ (-¾) 14¾%

10-year: 98% (-%) 14%

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

# Euro-dollars (Today's opening London bid)

7-day: 14%% 1-month: 14%%

3-months: 15 3/16% 6-months: 15 5/16%

# Federal Reserve Operations:

\$1bn. customer repurchase agreements with Fed Funds at 14½%. Stop rate 14.08%.

### Indicators

Producer prices in May unchanged from April.

Ml + 1.5bn.

#### Comment:

The market opened on a strong note, following the release of the encouraging wholesale prices figure. The rally was, however, short-lived and prices gave up their early gains when there was no retail follow through and Funds moved higher. The Fed action had little impact but money supply was on the disappointing side of expectations and prices dropped sharply, before closing slightly off their lows.

14th June 1982.

TRS