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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 14th June 1982

In the EMS realignment late on Saturday night, the deutschemark and the guilder were both revalued by 4½%, the French franc was devalued by 5½% and the lira by 2½%. This was accomplished fairly smoothly and seemed more or less to fulfil market expectations, as both of the appreciating currencies moved to the bottom of the new band, with the French franc close to the top. Meanwhile a disappointingly large (\$1.5bn.) increase in US money supply meant no early relief from the pressure of US interest rates was likely and Citibank, the last bank at 16%, duly raised its prime to 16½%. The dollar continued very firm and a number of currencies recorded new all-time lows. Sterling was little traded but remained fairly steady against the strong dollar; the ERI closed 1.1 higher at 91.5.

The dollar weakened temporarily in New York on Friday evening where sterling rose to touch 1.7875, before closing at 1.7835. After opening at 1.7692 in London, the rate gave ground quickly in early business as the dollar strengthened, falling to 1.7615. However, sentiment soon turned and as the dollar itself eased a little, sterling moved up, reaching 1.7695 shortly before noon. No great volume of business was seen and during the afternoon, when the dollar again moved higher, following another poor US bond market performance, the pound traded narrowly either side of, and closed at, 1.7650. Three-month Euro-dollars rose ¾% to close at 15½%. Sterling's forward premium widened to 2 5/16% and the covered differential moved to 1/16% against London.

Sterling gained ¾% in Germany (4.27½%), ¾% in Switzerland (3.65) and 6½% in France (11.84½%). The dollar was over 1% firmer in both Frankfurt (2.42) and Zurich (2.0680) and over 9% in Paris, where the French franc set a new all-time low of 6.7150, before closing at 6.7075. In EMS the deutschemark moved to the bottom of the realigned band, 2½% below the Danish crown (8.3550) at the top. The lira (1359, after an all-time low of 1360.50) closed outside the band, 3% above the deutschemark. The Bank of France took their losses on some of their recent support operations, buying \$504mn. and deutschemarks worth \$205mn. The Germans sold \$42mn. and French francs worth \$101mn. The Danes sold \$19mn. Elsewhere, the Norwegians sold \$40mn. and the Swedes \$10mn. The Canadian dollar set an all-time low of 1.2687. In spite of \$50mn. of support by the Bank of Japan in Tokyo this morning, the yen moved back through 250, closing at 250.57.

The strength of the dollar contributed to a further weakening of the gold price. Fixings were at \$322.25 and \$320.75.

Operations:	Market	+	\$7mn.
	Interest	+	7
	Sundries	+	2
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		+	\$16mn.
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	Overnight	+	\$10mn.
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14th June 1982.

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TRS

US BOND AND MONEY MARKETS

Monday, 14th June 1982

Federal Funds

Opening: 14%
Range: 14% - 14 $\frac{1}{4}$ %
Close: 14 $\frac{1}{8}$ %

US Governments (NY closing bids)

2-year: 98 $\frac{7}{8}$ (- $\frac{1}{8}$) 14 7/16%
5-year: 97 $\frac{7}{8}$ (- $\frac{1}{8}$) 14 5/16%
10-year: 97 $\frac{7}{8}$ (-1) 14 3/16%
30-year: 100 $\frac{5}{8}$ (-1 $\frac{1}{4}$) 13 15/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{3}{4}$ %
1-month: 14 15/16%
3-months: 15 $\frac{3}{8}$ %
6-months: 15 7/16%

Federal Reserve Operations:

\$1bn. customer repurchase
agreements with Fed Funds at 14 $\frac{1}{2}$ %.
Stop rate 14.13%.

Indicators

Comment:

The market declined throughout the day in response to the disappointing money supply statistics, the more expensive cost of carry, the onset of fresh supply from the Treasury and expectations of a bulge in money in July. Retail and professional participation was scant.

15th June 1982.

JGH