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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 16th June 1982

More upward pressure was exerted upon the dollar as interest rates yet remained very firm and the outlook seemed ever more dispiriting. Two-way business was evinced in sterling and, while sellers tended to outnumber buyers, the pound still fared better than most of its neighbours. The ERI rose from 91.4 to 91.5.

Given the dollar's generally firmer trend, the pound did well to hold up yesterday in New York where it closed little changed at 1.7617. Early demand from Tokyo kept sterling quite steady this morning when it began at 1.7590 and advanced to 1.7613 on a firm dollar before settling around the opening level. The appearance of the Bundesbank now turned the dollar for a while and sterling reached its best level of 1.7633 before stabilising around 1.76. The official easing of monetary conditions in Germany, however, prompted the dollar to move on higher again and sterling, in particular, met sellers as Americans returned, falling to 1.7515 at worst. Although the dollar had by now exceeded DM 2.43, the threatened avalanche from Chicago never came to pass and, as the dollar consolidated somewhat below the day's highest levels, sterling recovered to close at 1.7565. Later, with European centres finished early for the World Cup and North America proving a very thin market, a commercial sale of pounds (for DM) was executed and the rate fell to 1.7460 at one stage. Eurodollars saw no change (15½%) and there was again a three-month forward premium of 2 13/16% p.a. Sterling deposits lost 1/16% (12 13/16%); a differential in favour of London of ½% remained on a covered basis.

A rise of ¾% by the pound in France (11.84½) and Germany (4.27), a rise of ¾% in Switzerland (3.67¾) was secured. The Swiss franc was especially weak, falling to 2.0915 on the dollar and 0.86 on the DM. After dropping to 2.4340, the deutschemark closed at 2.4310, 2 15/16% distant from the lira (1366.05), 2¾% off the French franc (6.7420) in EMS, yet only a little below the florin. The French bought deutschemarks worth \$165mn.; the Italians took \$59mn. The Germans sold \$78mn. A new record low was set by the Canadian dollar (1.2833) after London's close in spite of official sales of \$229mn. yesterday to support the currency. The yen weakened further to 252.72. The Japanese did not intervene.

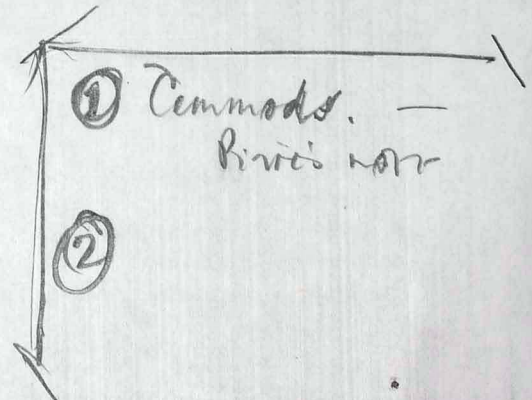
Escalating cost of carry kept gold depressed and it traded in a narrow range around recent levels. Fixings were \$316.65 and \$317.00.

Operations:	Market	-	\$3mn.
	Italy	-	31
	Sundries	+	2
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		-	\$32mn.
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US BOND AND MONEY MARKETS

Wednesday, 16th June 1982

Federal Funds

Opening: 14½%
Range: 14½%-18%
Close: 15%

US Governments (NY closing bids)

2-year: 98½ (-¼) 14½%
5-year: 97¼ (-⅝) 14½%
10-year: 96⅞ (-¾) 14¾%
30-year: 100 (-⅞) 14%

Euro-dollars (Today's opening
London bid)

7-day: 14 13/16%
1-month: 15 1/16%
3-months: 15½%
6-months: 15 11/16%

Federal Reserve Operations:

\$2bn. customer repurchase agreements
with Fed funds at 14½%.
Stop rate 14.12%
Bought \$650mn. Treasury Bills for
a customer.

Indicators

Housing starts in May rose 22.3% to a level of 1,086,000 (s.a.a.r.).

Comment:

The market opened dull but steady. There was some disappointment with the Fed's activity. The announcement of Housing Starts had surprisingly little impact at the time but the market sold off after the results of the two-year auction were announced.

17th June 1982

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