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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th June 1982

The dollar climbed to new, recent highs in Far East markets this morning and then reversed direction on some very large selling orders from an Asian official source, particularly against yen and deutschemarks. Eurodollars opened well bid. As a result Europe experienced a nervous and uncertain market from the outset. Sterling recovered from two bouts of weakness to leave the ERI unchanged at 91.2.

Sterling closed at 1.7360 in New York yesterday but suffered in Tokyo, falling to 1.7320 when the dollar reached its best levels. By London's opening, it had recovered to 1.7440 but selling out of Japanese banks was renewed once the disparity in interest rates widened: 1.7310 was reached just before noon. This afternoon, however, the IMM turned buyers and with some central bank demand also the rate jumped to 1.7465 before easing into a quiet close at 1.7395. It may be that, in the wake of the recent Drysdale & Comark events, lenders are becoming more cautious and credit lines more stringent. Whatever the cause, Eurodollars were quoted at 16 7/16% shortly after the opening today, for three months' money. By the close, however, as Fed Funds turned easier, there was an abrupt turn down to 15 15/16 Forward margins failed to react to this late movement and, with sterling interbank at 13%, a covered premium of 1/2% p.a. re-emerged in London's favour.

The pound moved ahead in Germany (4.26 1/4%), France (11.83 1/4%) and Switzerland (3.68 1/4%). Action by the French to reduce their call money rate by 1/8% did not alter their franc's position at the head of EMS and they also recouped another \$112mn. of deutschemarks. The system closed 2 3/16% wide with the deutschemark weakest at 2.4545; the Germans sold \$125mn. In Tokyo the deutschemark had fallen to 2.4650 before the official buyer took an estimated DM.750mn. The Italians bought \$52mn., the lira closing at 1380.50. The Swiss were sellers of \$50mn., their franc weakening to 2.1170 (after 2.1240). The yen fell to 257.20 in Tokyo (a level not seen since April 1980) and the Japanese sold \$55mn., but the official buyer spent between \$200mn. and \$300mn. The yen closed there at 253.90 but weakened again to 254.47 in London. The Canadian dollar fell to 1.2926 this morning a further \$133mn. having been lost last night.

Gold recovered a little ground today, fixing at \$307.50 and \$308.75.

Operations:	Market	-	\$7mn.
	Bangladesh	-	7
	Iran	+	11
	Sundries	+	6
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		+	\$3mn.
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18th June 1982.

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US BOND AND MONEY MARKETS

Friday, 18th June 1982

Federal Funds

Opening: 14 $\frac{1}{4}$ %
Range: 13 $\frac{3}{4}$ % - 14 $\frac{1}{4}$ %
Close: 14%

US Governments (NY closing bids)

2-year: 99 (- $\frac{1}{8}$) 14 15/16%
5-year: 96 (- $\frac{1}{2}$) 14 $\frac{7}{8}$ %
10-year: 95 $\frac{1}{2}$ (-15/16) 14 $\frac{5}{8}$ %
30-year: 98 $\frac{1}{2}$ (-15/16) 14 $\frac{1}{2}$ %

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

Indicators

U.S. personal incomes up 0.7%
M1 + 1.4bn.

Comment:

The market opened slightly higher (up $\frac{1}{4}$ - $\frac{1}{2}$), but the gains proved to be short lived. Within half an hour prices were back almost where they had started. Later as Fed. Funds moved below 14% gains reappeared; but strength was always met by selling and new lows were established several times during the afternoon. The market again finished in poor spirit.

21st June 1982

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