

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 17th December 1982

The thinness of the markets and the proximity of the OPEC conference made for another difficult and erratic day's trading on the exchanges. Although expectations of an imminent realignment in EMS were dampened by firm statements from the French and German finance ministers, margins were under pressure throughout the day, with the punt joining the Belgian franc at the bottom of the band. Large amounts of support were again provided for the weaker currencies and the French, as yesterday, intervened massively to protect their deutschemark cross-rate. Sterling was a very nervous market, particularly following a statement from Yamani which implied that the Saudis might not be wholly committed to the \$34 a barrel price. Some widespread, heavy selling developed and although this was countered by sizeable support, the ERI fell 0.4 to 85.3. Late in the day further heavy selling was seen from the IMM and the ERI fell below 85.

The IMM were sellers of dollars in New York last night and sterling rose there to close at 1.6252. This morning the rate opened at 1.6220 and rose quickly to 1.6282 as the dollar weakened in initially rather quiet markets. However, when Sheikh Yamani was reported as saying that the Saudis would only hold the \$34 oil price if differentials for the differing types of crude were maintained, sterling fell very quickly. With heavy selling from Switzerland and some commercial orders to sell also in the market, the rate dropped a cent, to 1.6165 before steadying with the aid of some support. A large commercial buying order then entered the market, and the rate recovered to 1.6225 at best before falling again to 1.6162 around noon on selling from Scandinavia. The afternoon was relatively quiet and with the dollar strengthening in Europe, the rate mostly traded either side of 1.62, before closing at 1.6170. Later, however, as the IMM came into sell sterling in a very thin market, the rate dropped again very sharply to 1.6015 at the low, despite further heavy support. Three-month Euro-dollars closed 1/16% firmer at 9 3/8% and sterling's forward discount was 1 1/16%.

The pound lost another 1/8% in Europe, closing at 3.90 in Germany, 11.06 3/8 in France and 3.30 1/2 in Switzerland. The dollar ended a little weaker in each of these centres at 2.4117, 6.8425 and 2.0425 respectively. EMS was under pressure throughout the day and by the close the band was 2 1/2% wide, between as usual the Belgian franc (47.49) and the guilder (2.6617). Intervention was heavy: the French sold \$503mn., following a further \$93mn. in New York last night (making over \$2 1/2bn. so far this month), the Italians sold \$238mn., the Irish \$128mn. (of which \$4mn. was in guilders) and the Danes \$95mn. (of which \$37mn. was in deutschemarks). Meanwhile, the Dutch bought Belgian francs worth \$119mn. and the Belgians sold guilders worth \$111mn. Elsewhere, the Norwegians sold \$53mn. and the Swedes \$35mn. The yen closed at 243.45.

Gold was a quiet and dull market. Fixings were at \$440.50 and \$437.

Operations:	Market	-	\$113mn.
	Iran	+	7
	IDA	+	6
	Sundries	-	5
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		-	\$105mn.
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17th December 1982.

TRS

US BOND AND MONEY MARKETS

Friday, 17th December 1982

Federal Funds

Opening: 8 $\frac{1}{4}$ %
Range: 8 $\frac{1}{2}$ % - 8 $\frac{3}{4}$ %
Close: 8 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{1}{2}$ (- $\frac{1}{4}$) 9 $\frac{5}{8}$ %
5-year: 99 $\frac{3}{8}$ (- $\frac{1}{8}$) 10 $\frac{1}{4}$ %
10-year: 99 $\frac{1}{2}$ (- $\frac{1}{4}$) 10 $\frac{5}{8}$ %
30-year: 97 (- $\frac{3}{8}$) 10 $\frac{1}{4}$ %

Euro-dollars (Today's opening London bid)

7-day: 9 3/16%
1-month: 9 9/16%
3-months: 9 11/16%
6-months: 9 13/16%

Federal Reserve Operations:

Sold \$300mn. Treasury Bills for a customer.

3-month Treasury Bills 7 $\frac{7}{8}$ %
3-month US bank CDs 8 $\frac{1}{4}$ %
Differential $\frac{7}{8}$ %

Indicators

M1 +\$3.5bn.

Comment:

Another dull day in the bond market.

20th December 1982.

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