

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 7th January 1983

A lively day with an abundance of rumours provoking some sharp movements in exchange rates and in the gold price. Further speculation on a weekend realignment in EMS put pressure on the weaker currencies in the arrangement and the Bank of France provided massive support for the franc against the deutschemark. Meanwhile, a further rise in unemployment in the US, reports of a major German bank in liquidity difficulties and another sovereign borrower not meeting its obligations revived hopes for an early cut in the US discount rate and the dollar weakened. The pressures sterling faced yesterday continued at first today, when some large commercial selling orders were seen, but the tone had improved a little by the end of the day. Nevertheless, the ERI closed down 0.4 at a new low of 82.5.

Sterling weakened with the dollar to close at 1.6045 in New York last night. This morning the dollar strengthened in the Far East and the pound opened in London at 1.6027. In fear that the heavy selling of yesterday might be repeated, banks immediately marked down their prices as the dollar began to strengthen further and the rate fell to 1.5945 on little real business in the early going. Then, as the dollar turned back from its best levels, the rate began to rise slowly despite the appearance in the market of two large commercial selling orders against deutschemarks. By mid-morning sterling had recovered to 1.60 and it traded narrowly around this level throughout the remainder of the morning as the selling orders were executed. The entry of New York and the release of the US unemployment figures, together with Fed Funds at 8½%, immediately saw the dollar marked lower. Some modest demand for sterling emerged at this time in cover of short positions taken earlier in the week and the rate rose for much of the afternoon to reach 1.6052 at best; it ended at 1.6045 with the dollar at new recent lows in Europe. After the close, in a very thin market, some further buying of sterling was seen and the pound reached 1.6125 at the high. Three-month Euro-dollars were 1/16% lower at 8½% and sterling's forward discount was 1½%.

The pound weakened further in Europe, losing another 1½% to a strong Swiss franc (3.10½) and ¾% against the deutschemark (3.74½) and the French franc (10.64½). The dollar fell 1½% in Switzerland (1.9355) and ½% in both Germany (2.3365) and France (6.6325). By the close EMS was 2½% wide between the Belgian franc (46.13) at the bottom and the deutschemark, which moved to top position. Sizeable support was necessary for the Belgian franc: the Belgians sold guilders worth \$89mn. and deutschemarks worth \$15mn. while the Dutch and the Germans bought Belgian francs worth \$47mn. and \$3mn. respectively. In addition, the Germans bought \$100mn. With the deutschemark at the top of the arrangement, the Bank of France supported the franc to maintain their cross-rate, selling \$671mn., of which \$174mn. was in deutschemarks and \$52mn. in Swiss francs. The Danes sold \$4mn., the Irish \$3mn., while the Italians bought \$33mn. The yen improved ½% to 228.80, amidst growing talk of an early cut in the Bank of Japan's discount rate.

After a quiet morning, gold rallied sharply following the entry of New York as rumours spread about further serious problems in the international banking sphere. After fixing at \$454 in the morning the price was fixed at \$465 in the afternoon after a difficult 85 minute session.

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|-------------|----------|---|---------|
| Operations: | Market | + | \$10mn. |
| | Interest | + | 5 |
| | Sundry | + | 1 |
| | | | <hr/> |
| | | + | \$16mn. |

7th January 1983.
TRS

US BOND AND MONEY MARKETS

Friday, 7th January 1983

Federal Funds

Opening: 8 $\frac{1}{4}$ %
Range: 7 $\frac{7}{8}$ % - 8 $\frac{1}{4}$ %
Close: 8%

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$ (+ $\frac{1}{8}$) 9 $\frac{1}{4}$ %
5-year: 100 $\frac{3}{8}$ (+ $\frac{1}{4}$) 10%
10-year: 100 $\frac{7}{8}$ (+ $\frac{1}{8}$) 10 $\frac{3}{8}$ %
30-year: 99 (- $\frac{1}{8}$) 10 $\frac{1}{2}$ %

Euro-dollars (Today's opening London bid)

7-day: 8 11/16%
1-month: 8 $\frac{1}{4}$ %
3-months: 8 $\frac{3}{4}$ %
6-months: 8 $\frac{7}{8}$ %

Federal Reserve Operations:

Weekend reverse repurchase agreement with Fed Funds at 8 $\frac{1}{8}$ %.
Stop rate 8.29%.

3-month Treasury Bills 7 $\frac{7}{8}$ %
3-month US bank CDs 8 $\frac{3}{8}$ %
Differential $\frac{1}{2}$ %

Indicators

M1 +\$500mn.

Unemployment 10.8% (November revised to 10.7%)

Comment:

The market moved up during the morning, to show gains at mid-day of up to $\frac{1}{2}$ point, but drifted lower during the afternoon.

10th January 1983.

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