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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 4th March 1983

Increasing confidence that Sunday's election would result in the reinstatement of Chancellor Kohl helped the deutschemark to strengthen sharply today, aggravating the pressure which had been building all week within EMS. Massive intervention (over \$1bn.) was poured in by the French in an attempt to keep pace and some support was necessary for other weak currencies, the Belgian franc and the Irish punt. Sterling passed a quiet day but some light selling during the afternoon prevented any improvement against the weakening dollar. Further ground was lost to the Continent and the ERI closed 0.2 lower at 79.6.

Sterling improved a little in New York last night to close there at 1.5155. Today the rate opened at 1.5120 and, having touched 1.5110, traded up from there slowly throughout the morning as the dollar began to ease elsewhere. With the entry of New York the speed of the dollar's decline accelerated and for a short time sterling kept pace, reaching 1.5170 in mid-afternoon. Some modest commercial selling then developed from the US and the rate fell back to 1.5127 by the close, although the dollar was continuing to fall, particularly against the deutschemark. In late business, when the IMM were selling sterling, the pound was quoted down to 1.5097. Three-month Euro-dollars were unchanged at 8 13/16% but the cost of forward cover narrowed to 2 1/16%

The pound slipped further in Europe, losing $\frac{5}{8}\%$ in Germany (3.64) and France (10.32) and $\frac{3}{8}\%$ in Switzerland (3.08 $\frac{7}{8}$) but this was with the dollar $\frac{3}{8}\%$ lower at the close at 2.4060, 6.8225 and 2.0420; when the deutschemark improved to 2.3950 in late business, the sterling/deutschemark cross-rate fell to a new all-time low of 3.61 $\frac{1}{2}$. EMS was again fully stretched throughout the day and although by the close the guilder (2.6582) squeezed the deutschemark out of top place, most of the intervention was against the latter. The Bank of France spent \$1,041mn. (of which \$349mn. was in deutschemarks) in their largest single day's support since September 1981. In addition, the Belgians sold \$168mn. (\$155mn. in deutschemarks and the balance in florins), the Irish sold \$69mn. (of which \$19mn. was in deutschemarks), the Italians \$53mn. and the Danes \$5mn. The Dutch and Germans bought Belgian francs worth \$48mn. and \$19mn. respectively. The yen did not share in the deutschemark's improvement, ending only slightly firmer on the day at 235.92.

With the OPEC conference in session in London, gold was a very nervous market. Both fixings were long and difficult but were eventually concluded at \$415.50 and \$412.50.

Operations: NIL
Overnight - \$15mn.

4th March 1983.

TRS

US BOND AND MONEY MARKETS

Friday, 4th March 1983

Federal Funds

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

US Governments

(NY close)

2-year: $100\frac{1}{2}$ ($-\frac{1}{8}$) $9\frac{5}{16}\%$
5-year: $100\frac{1}{8}$ ($-\frac{1}{4}$) $9\frac{13}{16}\%$
10-year: $103\frac{1}{2}$ ($-\frac{3}{8}$) $10\frac{5}{16}\%$
30-year: $99\frac{1}{8}$ ($-\frac{1}{2}$) $10\frac{1}{2}\%$

Euro-dollars

(Today's London opening-
middle rates)

7-day: $8\frac{1}{8}\%$
1-month: $8\frac{13}{16}\%$
3-months: $8\frac{1}{8}\%$
6-months: 9%

Federal Reserve Operations

Sold \$1.2bn. Treasury Bills for
customers.

3-month Treasury Bills $8\frac{1}{8}\%$
3-month US bank CDs $8\frac{5}{16}\%$
Differential $3/16\%$

Indicators

Unemployment 10.4% in February.
M1 + \$3.6bn.

Comment:

The market drifted lower through the day, with market
sentiment not helped by the Fed's action or by the M1 announcement.

7th March 1983.

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