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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 8th March 1983

Chairman Volcker's cautionary remarks to the House Budget Committee about the need for high real interest rates in the US in order to finance the deficit, followed by his expressed concern about the pace of monetary expansion, unnerved the markets and sent the dollar soaring again on the exchanges today. With the prospects for agreement at the OPEC conference appearing gloomy, sterling was a nervous market but the rate held up relatively well throughout the day, the ERI closing unchanged at 79.6. However, as the dollar strengthened further in late business sterling dropped quickly to a new all-time low.

The IMM were again sellers of sterling in New York last night where the pound closed at 1.5125. This morning the rate opened at 1.5110 and traded initially around the 1.51 level. However, some commercial selling from Scandinavia developed in mid-morning and the tone became distinctly nervous following Oteiba's statement that he was not hopeful that OPEC would be able to reach agreement. With an oil company also selling sterling at this time, the rate dipped to 1.5040 in mid-morning before recovering to 1.5076 at noon. The afternoon was quite quiet and little business in sterling was seen at first. Although the dollar began to strengthen following Volcker's warning about the need for high real interest rates, sterling was at first unaffected and the rate closed relatively comfortably at 1.5056. After the close, as the dollar continued to move higher as the concerns about the growth in the money supply came over the tapes, sterling fell back sharply and some commercial selling from Germany was triggered at the 1.50 level. In a very nervous atmosphere the rate traded down to 1.4950. Three-month Euro-dollars were ⅛% higher at 9 1/16% and the cost of forward cover widened to 2⅛%.

At the close the pound was only slightly below last night's levels in Europe, at 3.62 in Germany, 10.31 in France and 3.10⅛ in Switzerland. During the course of the morning, however, the sterling/deutschemark rate had been as low as 3.59½ and it slipped to 3.60 in late business. The dollar ended ¾% firmer in each of these centres at 2.4051, 6.8475 and 2.0595. Following yesterday's change in their intervention tactics, the immediate pressure on the French franc abated and it settled in about the middle of the EMS band. Despite a 2½% increase, to 14% in their discount rate, pressure on the Belgian franc was again heavy and the National Bank sold $110mn. in deutschemarks, while the Germans bought Belgian francs worth $15mn. and $9mn. The lira too received substantial support of $266mn. ($42mn. in deutschemarks), while the Danes sold $68mn. ($8mn. in deutschemarks) and the Irish $43mn. ($10mn. in deutschemarks). The yen fell 1½% to 238.42.

Gold was quite active and after a firm opening, probably on news that Argentina had suspended repayments of foreign exchange swaps, the price drifted lower through the day. Fixings were at $422.25 and $417.50.

Operations:	Market	-	$15mn.
	Iraq	+	6
	Sundries	+	6
		-	$3mn.
	Overnight	-	$8mn.

8th March 1983.

TRG

US BOND AND MONEY MARKETS

Tuesday, 8th March 1983

Federal Funds

Opening:	8¾%
Range:	8½% - 8¾%
Close:	8½%

US Governments

(NY close)

2-year:	100⅛	(-¼)	9⅝%
5-year:	99⅜	(-½)	10%
10-year:	102⅜	(-⅝)	10½%
30-year:	97⅝	(-¾)	10⅝%

Euro-dollars

(Today's London opening-middle rates)

7-day:	9 1/16%
1-month:	9 3/16%
3-months:	9¼%
6-months:	9⅜%

Federal Reserve Operations

$1.8bn. customer repurchase agreements with Fed Funds at 8¾%. Stop rate 8.76%.

3-month Treasury Bills	8 5/16%
3-month US bank CDs	8⅝%
Differential	5/16%

Indicators

Comment:

The market opened weaker and moved down sharply on Volcker's testimony before the House Budget Committee - particularly over his view that real interest rates would remain high if the government deficit was not reduced and on his worries over recent money supply growth.

9th March 1983.

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