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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 10th March 1983

In the absence of any firm news from the OPEC conference and of any significant development in the US domestic market, attention on the exchanges focussed on EMS. As rumours of a realignment, involving a revaluation of the deutschemark and a devaluation of the French franc, to take place either this weekend or next, spread through the market, funds flowed into Germany, and to a lesser extent, the Netherlands, polarising EMS between the strong and the weak currencies. Large amounts of intervention were necessary to maintain the 2½% margin. Sterling was unaffected by this activity and the market was quiet. The ERI closed up 0.3 at 79.8.

Sterling closed quietly in New York at 1.5050 last night and opened in London today at 1.5043. As the deutschemark began to strengthen from the outset and the dollar weakened generally, sterling moved up to 1.51 within the first hour of business and stayed around this level for the remainder of the day. At best in mid-afternoon as the dollar reached its low point for the day, sterling touched 1.5135 and the rate closed at 1.5110, with no significant business seen. Three-month Euro-dollars were unchanged at 9 3/16% and the cost of forward cover was 1¼%.

The pound was unchanged in Germany (3.61½), gained ¼% in Switzerland (3.10) and 1% in France (10.41½) where the franc weakened sharply within EMS as the effects of high Eurofranc rates were reduced and as the approach of the weekend fuelled expectations of a realignment. Whereas the deutschemark (2.3907) and the Swiss franc (2.0513) each rose by about ¾% against the dollar, the French franc (6.8950) fell ½% and by the close it was in the bottom part of EMS; it closed a little above the other weak currencies, the Belgian franc (47.13), the Danish crown (8.6350) and the punt (1.3797) all of which received heavy assistance. The Belgians spent \$285mn. in deutschemarks (making \$1.3bn. so far this month), while the Germans bought Belgian francs worth \$49mn. and Danish crowns worth \$4mn. The Danes, for their part, spent \$134mn., of which \$74mn. was in deutschemarks, and the Irish \$87mn. (\$15mn. in deutschemarks). The Italians, now some 3% below the deutschemark in EMS, sold \$320mn. Elsewhere, the Norwegians sold \$59mn. and the Swedes \$20mn. The yen improved slightly to 236.97.

With expectations of an OPEC agreement appearing to improve, gold continued on its recent firmer path, helped by buying from the Middle East. Fixings were at \$433 and \$434.75.

Operations:	Market	+	\$6mn.
	IDA	+	33
	Interest	+	6
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		+	\$45mn.
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10th March 1983.

TRS

US BOND AND MONEY MARKETS

Thursday, 10th March 1983

Federal Funds

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

US Governments

(NY close)

2-year: 99 $\frac{7}{8}$  (- $\frac{1}{8}$ ) 9 $\frac{7}{8}$ %  
5-year: 99 (- $\frac{1}{4}$ ) 10 $\frac{1}{8}$ %  
10-year: 102 (- $\frac{3}{8}$ ) 10 $\frac{1}{2}$ %  
30-year: 97 $\frac{1}{4}$  (- $\frac{1}{2}$ ) 10 11/16%

Euro-dollars

(Today's London opening-  
middle rates)

7-day: 8 15/16%  
1-month: 9 1/16%  
3-months: 9 3/16%  
6-months: 9 5/16%

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

Federal Reserve Operations

Bought \$600mn. Treasury Bills for  
customers.

Indicators

Retail Sales -0.4% (with January revised from +0.1% to -0.5%)

Comment:

The market opened little changed, but gradually lost ground. The retail sales announcement, against expectations of an increase of around  $\frac{1}{2}$ %, moved prices up temporarily.

11th March 1983.

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