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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 11th March 1983

Market expectations of a weekend realignment of EMS flourished for much of the day and the weaker currencies were again only held within the margin at heavy cost in intervention. However, although the pressure was intense at times it appeared to diminish towards the end of the day as hopes for a move began to fade and the costs of running short French franc positions rose. Sterling was again rather quiet but nervousness increased as it became clear that OPEC ministers were a long way from reaching agreement on production quotas. The ERI closed 0.4 lower at 79.4.

Sterling lost a little ground in New York last night, closing there at 1.5095 against an easier dollar. This morning the rate opened at the high for the day of 1.5081 and traded comfortably around 1.5070 for the first couple of hours of business with some two-way interest from oil companies. As the tone of the rumours emerging from the OPEC conference became more pessimistic about the prospect for reaching agreement, the rate began to give ground and it had drifted down to 1.5030 by noon against an otherwise little changed dollar. When Oteiba was reported as saying that the OPEC countries were still far apart on the question of quotas, sterling was quickly marked down and the rate fell to 1.4960 over the lunch period. However, some moderate buying interest was seen from Eastern European banks at the lower levels and the rate recovered to hold 1.50 for most of the afternoon, closing at that level. Three-month Euro-dollars were 1/16% firmer at 9 1/4% and the cost of forward cover widened to 1 1/8%.

With the deutschemark in very strong demand throughout the day, the pound closed at a new all-time low in Germany (3.59 1/2) but it was only a little below yesterday's levels in both Switzerland (3.09 1/4) and France (10.41). The dollar was little changed in Frankfurt (2.3940) but was firm in both Zurich (2.0615) and Paris (6.94). As yesterday, EMS was only held by dint of heavy intervention, with the French providing the largest support. They sold \$555mn., all in deutschemarks, while the Germans and the Dutch bought French francs worth \$85mn. and \$7mn. respectively. The Germans also bought Danish crowns worth \$129mn. and Belgian francs worth \$43mn., the Dutch bought Belgian francs worth \$6mn., while the Danes sold \$146mn. in deutschemarks and the Belgians \$162mn. in deutschemarks. In addition, the Irish sold \$112mn. (of which \$36mn. was in deutschemarks and \$26mn. in sterling) and the Italians \$190mn. The yen eased to 237.92.

The diminishing hopes of an OPEC agreement led to some selling of gold and a slide in the price. Fixings were at \$424 and \$420.50.

Operations:	Market	-	\$12mn.
	Government	-	19
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		-	\$31mn.
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