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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th March 1983

Sterling suffered today from an unwillingness of banks to retain customers' sales on their books over the weekend. The weight of these did not appear to be heavy, and was partly countered by occasional East European buying, but it was sufficient to depress the rate to a new low and the ERI by 0.5 to 78.9 (after an unpublished 78.8 early this afternoon). Pressure within EMS also built up late in the day.

As Federal Funds remained quite firm, the dollar strengthened in New York yesterday, the pound easing to close at 1.5010, the level at which it began in London this morning. It briefly rose 9 points but spent most of the session around 1.4985, dipping quickly to the noon level of 1.4950 as the first selling wave began to bite. Renewed offering this afternoon brought a new low of 1.4870 before the close of 1.4890. The hardening of US interest rates was reflected in a rise of  $\frac{1}{8}\%$  in the three-months Euro-dollar rate, to 9 7/16%; the cost of forward cover for the same period reverted to 1 3/16%.

The pound moved about  $\frac{1}{8}\%$  lower in Germany (3.56 $\frac{1}{2}$ ) and Switzerland (3.07 $\frac{3}{8}$ ); and  $\frac{1}{8}\%$  down in France (10.34 $\frac{1}{8}$ ). The deutschemark continued to reign supreme but eased to 2.3930 (after 2.3985) on interest rate considerations although a realignment is believed to be imminent. At Europe's close the Belgian, Danish, French and Irish currencies were in a line at the bottom of a virtually fully-stretched system as intervention was stepped up, mostly in deutschemarks. The Belgians sold the equivalent of \$122mn., the French \$198mn. equivalent, the Danes \$45mn. equivalent (and \$4mn.) and the Irish \$53mn. equivalent (and \$40mn.); additionally the Germans were buyers of French francs (\$69mn.), kroner (\$38mn.) and Belgian francs (\$4mn.). The Italians sold \$170mn. The French franc closed at 6.9450 (after 6.95) in London. The Swiss franc eased to 2.0642 and the yen, which was sold out of Singapore and Europe, to 240.20.

Gold was a quiet market but rallied to fix at \$419.75 and \$421.75.

Operations:	Market	-	\$24mn.
	IBRD	+	10
	Sundries	+	2
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		-	\$12mn.
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	Overnight	-	\$2mn.
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18th March 1983.

DAHB  
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US BOND AND MONEY MARKETS

Friday, 18th March 1983

Federal Funds

Opening: 8 $\frac{5}{8}$ %  
Range: 8 $\frac{1}{2}$ % - 8 $\frac{3}{4}$ %  
Close: 8 $\frac{1}{2}$ %

US Governments

(NY close)

2-year: 99 $\frac{5}{8}$  (- $\frac{1}{8}$ ) 9 $\frac{7}{8}$ %  
5-year: 98 $\frac{5}{8}$  (- $\frac{3}{8}$ ) 10 3/16%  
10-year: 101 $\frac{1}{2}$  (- $\frac{1}{2}$ ) 10 $\frac{5}{8}$ %  
30-year: 96 $\frac{7}{8}$  (- $\frac{3}{8}$ ) 10 $\frac{3}{4}$ %

Euro-dollars

(Today's London opening-  
middle rates)

7-day: 9 3/16%  
1-month: 9 $\frac{3}{8}$ %  
3-months: 9 9/16%  
6-months: 9 $\frac{3}{4}$ %

Federal Reserve Operations

\$1.5bn. customer repurchase  
agreement with Fed Funds at 8 $\frac{5}{8}$ %.  
Stop rate 8.53%.

3-month Treasury Bills 8 9/16%  
3-month US bank CDs 8 15/16%  
Differential  $\frac{3}{8}$ %

Indicators

Producer Price Index +0.1% (after -1% in January)  
Personal Incomes +0.1% (after +0.1% in January)  
M1 +\$4.8bn.

Comment:

The market traded in a narrow range below the previous night's closing levels, before falling a further  $\frac{1}{4}$  following the M1 announcement.

21st March 1983.

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