

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 22nd March 1983

The exchanges settled down in the wake of the realignment and the main activity appeared to be the unwinding of deutschemark/French franc positions, which enabled the Bank of France to recoup, at a loss, some of its support of the past few weeks. With Mr Volcker reported as having tightened monetary policy a notch, Euro-dollar rates edged higher and the dollar remained firm. Against the background of firm US rates and continuing uncertainty on the oil front, sterling was soft and there was some selling from the US during the afternoon. The ERI closed down 0.4 at a new low of 78.5

Sterling closed quietly at 1.4740 in New York last night and opened in London at 1.4775 this morning. In early business, with the dollar tending to ease elsewhere, the rate reached 1.4780 at best but it traded around 1.4750 for most of the morning. The flow of business was steady and two-way at that time, with some selling by an oil company and from Germany matched by Swiss buying. As on most days recently, New York bid for dollars and with Volcker reported in the Washington Post as saying he was "taking in the slack in monetary policy", Euro-dollar rates moved up. At this stage there was some selling of sterling from Eastern Europe and, as the afternoon wore on, from the US as well; sterling drifted steadily lower to close at the low for the day of 1.4695. Three-month Euro-dollars were 1/16% firmer at 9 5/8% and the cost of forward cover narrowed to 1%.

The pound fell further in Europe, closing  $\frac{5}{8}\%$  lower in Germany (3.54 $\frac{1}{4}$ ),  $\frac{1}{2}\%$  down in France (10.61 $\frac{1}{4}$ ) and  $\frac{1}{4}\%$  off in Switzerland (3.05). The dollar ended some  $\frac{3}{8}\%$  down in each of these centres at 2.4105, 7.2255 and 2.0757. The punt (1.3127) moved to top of EMS, some 2 $\frac{3}{8}\%$  above the deutschemark by the London close. The French recouped some \$429mn. (all but \$16mn. in deutschemarks) and the Irish \$56mn. in deutschemarks, while the Italians sold \$253mn., the Germans French francs worth \$202mn. and the Dutch \$23mn. (of which \$3mn. was in deutschemarks). The yen was in good commercial demand and improved sharply, to 239.32.

Gold firmed in New York last night and held its gains in London today. Fixings were at \$420.75 and \$421.25.

Operations:	Market	+	\$4mn.
	Government	-	22
	Sundries	+	3
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		-	\$15mn.
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22nd March 1983

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US BOND AND MONEY MARKETS

Tuesday, 22nd March 1983

Federal Funds

Opening: 8 $\frac{1}{4}$ %  
Range: 8 $\frac{5}{8}$ % - 8 $\frac{7}{8}$ %  
Close: 8 $\frac{3}{4}$ %

US Governments

(NY close)

2-year: 99 $\frac{1}{2}$  (- $\frac{1}{8}$ ) 9 $\frac{7}{8}$ %  
5-year: 98 $\frac{1}{4}$  (- $\frac{3}{8}$ ) 10 5/16%  
10-year: 101 $\frac{1}{2}$  (- $\frac{1}{8}$ ) 10 $\frac{5}{8}$ %  
30-year: 97 $\frac{1}{8}$  (+ $\frac{1}{8}$ ) 10 11/16%

Euro-dollars

(Today's London opening-  
middle rates)

7-day: 9 $\frac{3}{4}$ %  
1-month: 9 9/16%  
3-months: 9 11/16%  
6-months: 9 13/16%

Federal Reserve Operations

\$2.5bn. customer repurchase  
agreements with Fed Funds at  
8 $\frac{7}{8}$ %. Stop rate 8.52%.

3-month Treasury Bills 8 $\frac{5}{8}$ %

3-month US bank CDs 8 $\frac{7}{8}$ %

Differential  $\frac{1}{4}$ %

Indicators

Durable goods -4% (after revised +5.7% in January)

Comment:

Reports of statements by Volcker that the Fed had begun to be less accommodating caused the market to ease. Although some fall in durable goods had been expected, the extent of the decline came as a surprise and prices recovered some of their losses, during the afternoon.

The new \$5 $\frac{1}{2}$ bn. 4 year was auctioned at a yield of 10.30%.

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