

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 16th December 1982

Yesterday's suggestion that a seasonal lull was descending on the exchange markets proved ill-founded, as today rates moved widely in nervous and erratic trading. A strong movement into the deutschemark during the morning took the dollar sharply lower and gave rise to severe pressures within EMS. By the close there was widespread speculation on a weekend realignment, which would involve a 5% revaluation of the deutschemark and the guilder and the temporary withdrawal from the system of the French franc, and heavy support was provided for some of the currencies, particularly the French and Belgian francs. Although rather on the sidelines, as so often in circumstances when the dollar is falling, sterling failed to respond and the pound weakened in Europe. The ERI closed 0.1 lower at 85.7.

Sterling held up well in New York last night and closed there at 1.6170 (DM 3.95½). This morning the rate opened at 1.6152 and initially traded narrowly around this level, falling no lower than 1.6146 against an unchanged dollar. However, when some aggressive buying of deutschemarks, probably on professional account, came into an otherwise rather thin market, the dollar began to weaken and the deutschemark rapidly improved by two pfennigs. Sterling was very slow to move, despite some official assistance, rising reluctantly to 1.6220 (DM 3.93½) in mid-morning. Although when this large order was satisfied the dollar temporarily regained some of its losses, sterling also slipped back, to 1.6165, with some selling on oil company accounts depressing the rate. New York looked set at first to take the dollar higher but as rumours about a weekend revaluation of the deutschemark started to circulate in the market, sentiment quickly changed and the dollar fell back. Again, although sterling moved a little higher reaching 1.6240 at best, it failed to keep pace with the improvement shown on the Continent. The rate ended at 1.6210. Three-month Euro-dollars were unchanged at 9 9/16% and with sterling interbank rates tending to rise, sterling's forward discount widened to 1 1/16%.

The pound was easier in Europe, falling ½% in Germany (3.92½), ¾% in France (11.12¾) and 1% in Switzerland (3.33¾). The dollar fell 1¼% in each of these centres, to close at 2.42, 6.8625 and 2.0570 respectively. In EMS the French provided very heavy support to hold their cross-rate against the deutschemark below DM 2.84, selling \$708mn. (of which \$211mn. was in deutschemarks). By the close the band was 2 5/16% wide between the guilder (2.6672) and the Belgian franc (47.60). Large scale support was also necessary for the Belgian franc, the Belgians selling guilders worth \$81mn. and deutschemarks worth \$15mn. while the Dutch bought Belgian francs worth \$145mn. In addition, the Italians sold \$145mn., the Irish sold \$34mn. and the Danes \$25mn. The yen improved to 243.40.

Although the price rose a little from yesterday, gold failed to capitalise on the weakness of the dollar. Fixings were at \$441.50 and \$440.25.

Operations:	Market	-	\$65mn.
	Iraq	+	8
	RBNZ	+	7
	Interest	+	7
	Sundries	+	4

- \$39mn.

16th December 1982.

TRS

Overnight - \$16mn.

US BOND AND MONEY MARKETS

Thursday, 16th December 1982

Federal Funds

Opening: 8 $\frac{1}{8}$ %  
Range: 8 $\frac{1}{8}$ %  
Close: 8 $\frac{7}{8}$ %

US Governments (NY closing bids)

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

Euro-dollars (Today's opening  
London bid)

7-day: 9 $\frac{1}{8}$ %  
1-month: 9 $\frac{1}{2}$ %  
3-months: 9 $\frac{5}{8}$ %  
6-months: 9 13/16%

Federal Reserve Operations:

Bought \$250mn. Treasury Bills for  
a customer.  
Four-day system and customer  
repurchase agreement with Fed  
Funds at 8 $\frac{1}{8}$ %. Stop rate 8.71%.

3-month Treasury Bills 7 $\frac{7}{8}$ %  
3-month US bank CDs 8 $\frac{1}{4}$ %  
Differential  $\frac{7}{8}$ %

Indicators

Capacity Utilisation 67.8% (after 68.4 in October)  
Housing Starts +26% (after +1% in October)

Comment:

Prices remained in a narrow range through the morning, but began to ease during the afternoon. Prices fell further following the housing starts announcement. Despite fairly good four-year auction results the market closed at its low.

The new \$5bn. four-year was auctioned at an average of 10.10%.

17th December 1982.

OP DC