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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 3rd March 1983

With no new major developments on the oil front, attention switched today to Europe, where speculation about a realignment or France's withdrawal from EMS intensified. Very large amounts of intervention were necessary to maintain the franc/deutschemark cross-rate and to hold the Belgian franc within the margins. Meanwhile, for most of the day the dollar was slightly easier, following a statement last night from Mr. Volcker that the fall in US inflation provided a background for a sustained drop in interest rates, but it was firming again by the close. Sterling remained in a narrow trading range in modest two-way activity. The ERI closed 0.2 higher at 79.8.

As the dollar weakened in New York last night, sterling moved up to close there at 1.5115. This morning the rate opened at 1.51 and moved narrowly either side of this level throughout the day, falling no lower than 1.5082 shortly before noon and reaching 1.5130 at its best during the afternoon. Turnover was well below the levels seen earlier in the week and, apart from two-way interest on the part of professionals, the main business was some moderate corporate buying in the second half of the day. The rate closed at 1.5122. Three-month Euro-dollars closed 1/16% lower at 8 13/16% and the cost of forward cover narrowed to 2 5/16%.

The pound was a little firmer in Europe, gaining 1/4% in Switzerland (3.10 1/4) and rather less in both Germany (3.66 1/4) and France (10.38 5/8). The dollar closed unchanged in Zurich (2.0520) but a little easier in both Frankfurt (2.4223) and Paris (6.8685). With the German and French elections now imminent, the markets are expecting a realignment in the very near future and the franc was under pressure right from the outset. Today the French sold a further \$776mn. (\$496mn. in deutschemarks) taking total support this week to almost \$1.5bn. and to \$3.7bn. over the past four weeks. The Belgian franc was fully stretched against the deutschemark throughout the day and its divergence indicator reached 78 at times. The National Bank provided \$92mn. in deutschemarks in support, while the Germans bought Belgian francs worth \$31mn. and \$10mn. The Italians sold \$69mn., the Danes \$19mn. and the Irish \$13mn. The yen strengthened to 236.27.

Gold opened on a firm note, reaching \$437 this morning outside the fixing, but news that the Canadians might resume their programme of sales helped to depress the price. Fixings were at \$431.75 and \$429.50.

Operations:	Market	+	\$14mn.
	Government	-	20
	Interest	+	5
	Sundries	+	6
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		+	\$5mn.
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3rd March 1983.

TRS

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US BOND AND MONEY MARKETS

Thursday, 3rd March 1983

Federal Funds

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

US Governments

(NY close)

2-year: $100\frac{5}{8}$ ($-\frac{1}{4}$) $9\frac{1}{4}\%$
5-year: $100\frac{3}{8}$ ($-\frac{1}{4}$) $9\frac{3}{4}\%$
10-year: $103\frac{7}{8}$ ($-\frac{1}{2}$) $10\frac{1}{4}\%$
30-year: $99\frac{5}{8}$ ($-\frac{1}{4}$) $10\frac{7}{16}\%$

Euro-dollars

(Today's London opening-
middle rates)

7-day: $8\frac{7}{8}\%$
1-month: $8\frac{3}{4}\%$
3-months: $8\frac{13}{16}\%$
6-months: $8\frac{15}{16}\%$

Federal Reserve Operations

Sold \$200mn. Treasury Bills for
customers.

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

Indicators

Comment:

The market traded throughout the day in a narrow range
below the previous night's closing levels.

4th March 1983.

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