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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 7th March 1983

The extent of Chancellor Kohl's victory in the German elections caused the deutschemark to surge higher at the outset of trading on the exchanges today and, as widely predicted, caused further severe problems for the weaker currencies in EMS. After two hours of further heavy support for the franc at its central rate against the deutschemark, the Bank of France finally bowed to the pressure and announced that they would in future only support the franc at the 2½% margin, as required by EMS. In the space of a few minutes chaotic trading, the French franc fell from its position close to the top of the band to the bottom, before recovering a little on profit-taking towards the end of the day. Sterling remained immune from these wild swings and, with no news from the OPEC conference, saw little trading. The ERI, after a new low of 79.3 at the opening, closed unchanged on the day at 79.6.

Sterling met some selling pressure from the IMM in New York on Friday, closing at 1.5080 and at a new low of DM 3.60½. This morning the rate opened at 1.5165 and traded up to 1.5197 in early business before settling around 1.5175. A warning from BNOC that an OPEC market price of below \$29.50 would lead to a further cut in the price of North Sea oil caused the rate to be marked down in late morning and it fell to 1.5142 in the early afternoon when an oil company was selling sterling. However, the rate recovered steadily in the latter part of the day, to touch 1.52 shortly before the close at 1.5185. Three-month Euro-dollars were ½% firmer at 8 15/16% and the cost of forward cover narrowed to 1 15/16%.

The pound's performance in Europe was very mixed: it closed ¾% lower in Germany at 3.62¾ (having earlier in the day again been as low as 3.60½), was almost unchanged in France (10.32½) and was modestly firmer in Switzerland (3.09¼). The dollar ended ¼% lower in Frankfurt (2.3865) but only ¼% easier in Paris (6.80) and Zurich (2.0362). EMS was subject to pressure throughout the morning but this eased a little following the change in intervention tactics by the French. Having spent a further \$158mn. in New York on Friday night (taking Friday's total sales to \$1,199mn.), the Bank of France lost a further \$297mn. (of which \$21mn. was in deutschemarks) today. The Belgian franc (46.98) was at its intervention limit for most of the day but by the close had improved to only 2½% below the deutschemark. The National Bank spent \$301mn. in deutschemarks, while the Germans bought Belgian francs worth \$17mn. and French francs worth \$7mn. The Italians spent \$137mn., the Danes \$79mn. (\$20mn. in deutschemarks), the Irish \$51mn. and the Dutch \$4mn. in deutschemarks. Like sterling, the yen was quiet, closing at 235.

In contrast to Friday, gold was quiet and the price traded in a narrow range. Both fixings, which were concluded at \$421.25 and \$420.75, were brief.

Operations:	Market	+	\$3mn.
	IDA	+	8
	Sundries	+	3
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		+	\$14mn.
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7th March 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 7th March 1983

Federal Funds

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

US Governments

(NY close)

2-year: 100 $\frac{3}{8}$ (- $\frac{1}{8}$) 9 $\frac{3}{8}$ %
5-year: 99 $\frac{7}{8}$ (- $\frac{1}{4}$) 9 $\frac{7}{8}$ %
10-year: 103 (- $\frac{1}{2}$) 10 $\frac{3}{8}$ %
30-year: 98 $\frac{3}{8}$ (- $\frac{3}{4}$) 10 $\frac{1}{2}$ %

Euro-dollars

(Today's London opening-
middle rates)

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

Federal Reserve Operations

\$1.6bn. customer repurchase
agreement with Fed Funds at 8 $\frac{3}{4}$ %.
Stop rate 8.75%.

Sold \$400mn. Treasury Bills for
customers.

3-month Treasury Bills 8 3/16%
3-month US bank CDs 8 $\frac{1}{2}$ %
Differential 5/16%

Indicators

Comment:

The market lost ground until late afternoon when news that Argentina had suspended debt payments (see FT page 5) caused prices to recover slightly.

8th March 1983.

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