

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 14th March 1983

While the OPEC meeting meandered on, the unwinding of speculative positions in EMS, hastened by the tightening of exchange control measures in Belgium and astronomical overnight interest rates in France, provoked widespread short covering and a sharp improvement in some of the weaker currencies. Although this movement took the deutschemark away from top position in the band, it continued to improve against the dollar which ended lower in most centres. Sterling was again at the mercy of the latest news from OPEC. The strength of the European currencies as a group left the ERI 0.4 down on the day at a new low of 79.0.

The \$39bn. increase in M2 announced on Friday night helped the dollar to strengthen a little in New York but sterling was unaffected, closing there at 1.5035. This morning the rate opened at the low for the day of 1.5015 and moved up a little in early business, with some demand from Germany. During a quiet morning, with the dollar easing gently elsewhere and the Belgian franc improving quickly in EMS following measures to reduce the positions the banks are permitted to run, sterling continued to rise a little helped by some buying from a UK oil company and from Eastern Europe. When Yamani was reported in late morning as 99% certain of an OPEC agreement, sterling reached 1.5095 but failed to hold this level during the afternoon. The dollar started to weaken swiftly with the entry of New York and the French franc, in particular, strengthened very sharply while the deutschemark also continued to improve. Sterling, however, languished around the 1.5075 level, losing ground against the Continental currencies and ending at 1.5060. After the close, when OPEC announced that the conference had been concluded with an agreement, sterling rose very sharply to trade at 1.5255 at best. After a firmer opening, three-month Euro-dollars ended unchanged at 9½% and the cost of cover was 1.11/16%.

The divergent movements in European currencies meant that sterling's performance on the Continent was very mixed: it fell heavily against a strong French franc, closing 3% down at 10.10½, was modestly firmer against a weak Swiss franc (3.11) but was slightly easier at a new low against the deutschemark (3.58¾). From a firm opening, the dollar ended 3¾% lower in Paris (6.71), somewhat firmer in Zurich (2.0650) and ½% down in Frankfurt (2.3815). The passage of the weekend without a realignment turned EMS almost on its head and the Belgian franc (45.60) moved to the top of the band which, by the close, was 3¾% wide, with the punt (1.3820) at the bottom. The Belgians bought \$23mn. (\$21mn. in Danish crowns and \$2mn. in punts) while the Danes sold \$59mn. in deutschemarks and the Germans bought \$15mn. (of which \$9mn. was in Danish crowns). The yen closed at 237.65.

Gold was rather firmer. Fixings were at \$431.75 and \$428.50.

Operations:	Market	+	\$4mn.
	IDA	+	12
	Sundries	+	3
		+	\$19mn.
	Overnight	+	\$8mn.

14th March 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 14th March 1983

Federal Funds

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

US Governments

(NY close)

2-year: 100 $\frac{1}{8}$ (+ $\frac{1}{4}$) 9 $\frac{1}{2}$ %
5-year: 99 $\frac{1}{2}$ (+ $\frac{5}{8}$) 10%
10-year: 102 $\frac{1}{2}$ (+ $\frac{5}{8}$) 10 $\frac{1}{2}$ %
30-year: 97 $\frac{3}{4}$ (+ $\frac{7}{8}$) 10 $\frac{5}{8}$ %

Euro-dollars

(Today's London opening-
middle rates)

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

Federal Reserve Operations

Bought \$300mn. Treasury Bills for
customers.

3-month Treasury Bills 8 $\frac{1}{4}$ %
3-month US bank CDs 8 9/16%
Differential 5/16%

Indicators

Comment:

Following a quiet morning, Yamani's statement that a further reduction in the oil price by the UK could precipitate a price war caused speculative interest in the bond market to pick up. In light trading prices began to improve, closing near their highs.

15th March 1983.

OP
OR