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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 21st March 1983

The inability of the EMS Finance Ministers to reach agreement on the shape of the realignment over the weekend made for a turbulent day on the exchanges. With some centres closed and most European currencies only quoted on very wide spreads, there were sharp movements in rates on little substantial business. In the realignment, which was eventually agreed around mid-day, the deutschemark was revalued by 5½%, the guilder by 3½%, the Danish crown by 2½% and the Belgian franc by 1½%, while the French franc and the lira were each devalued by 2½% and the punt by 3½%. This seemed broadly to be in line with market expectations and the formerly weak currencies sprang to the top of the new band while the unwinding of long positions weakened the deutschemark. Meanwhile, following a much larger increase in M1 (+\$4.8bn.) than expected, the dollar strengthened sharply pushing sterling, which was again nervous on oil price considerations, to another new low. The ERI closed unchanged at 78.9.

Having closed at 1.4860 in New York on Friday evening, the pound was sold down to 1.4780 in the early hours in the Far East this morning where some modest support was provided. By the London opening the rate had recovered to 1.4825 and it touched 1.4847 at best during the morning. For the most part, however, sterling traded around 1.4825 but in only light activity, as the dollar remained firm awaiting developments in Brussels. News of the realignment initially took the deutschemark higher (to 2.3845) but this movement was short-lived as dealers moved quickly to take their profits and cover short dollar positions. The dollar strengthened very rapidly throughout the afternoon, with sterling barely moving and thus gaining ground against the Continental currencies. This attracted some selling as the afternoon wore on and the pound drifted down to 1.47 shortly before the close at 1.4720. Later, the pound fell further to 1.4680. Three-month Euro-dollars were ¼% firmer at 9 9/16% and the cost of forward cover was unchanged at 1 3/16%.

Sterling was mixed in Europe: it closed unchanged in Germany (3.56¼), lost ½% in Switzerland (3.05½) but gained 3¼% in France (10.67½). The dollar finished 1% higher in Frankfurt (2.42), ½% up in Zurich (2.0780) and 4½% firmer in Paris (7.2525). The Danish crown (8.5750) finished top of the realigned EMS, 2¼% above the deutschemark at the bottom. The French bought deutschemarks worth \$109mn., while the Germans sold French francs worth \$81mn. With Tokyo closed for the vernal equinox, the yen closed quietly at 241.07.

Gold was steady. Both fixings were at \$414.50.

Operations:	Market	-	\$28mn.
	IDA	+	11
	Iran	+	10
	Sundries	+	1
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		-	\$6mn.
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21st March 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 21st March 1983

Federal Funds

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

US Governments

(NY close)

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

Euro-dollars

(Today's London opening-
middle rates)

7-day: 9 3/16%
1-month: 9 $\frac{3}{8}$ %
3-months: 9 9/16%
6-months: 9 11/16%

Federal Reserve Operations

\$1.2bn. customer repurchase
agreements with Fed Funds at 8 $\frac{5}{8}$ %.
Stop rate 8.55%.

3-month Treasury Bills 8 9/16%
3-month US bank CDs 8 $\frac{7}{8}$ %
Differential 5/16%

Indicators

Flash estimate of US GNP in 1st quarter: +4.0%

Comment:

A very quiet day with prices remaining in a narrow range.

22nd March 1983.

TRS