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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 1st February 1983

Both the volume of business and the volatility returned to the exchanges today. Markets reacted badly last night to the US budget and its implications for US interest rates, marking both the bond market lower and the dollar higher. Today the dollar opened very firm but weakened gradually over the day as Euro rates eased back and by the close it was only slightly above yesterday's levels in most centres. Sterling was quite an active market. The rate came under pressure at times on news of the lower oil prices but bounced back well with some good commercial demand. A new all-time low of 1.5140 was set during the morning but by the close the pound had returned to yesterday's closing level. The ERI at 81.0 was 0.1 up on yesterday.

As the dollar moved up in New York last night, sterling fell back to close there at 1.5207. This morning the rate opened at 1.5205 but soon came under active selling pressure in London with an oil company, amongst others, selling sterling against deutschemarks. With the dollar strengthening elsewhere, the pound fell back during the first hour of business, reaching a new all-time low of 1.5140. However, as Euro-dollar rates began to turn back and the dollar moved lower in Europe, the selling diminished and, helped by some useful commercial demand from Scandinavia, the rate recovered. Sterling rose quite quickly throughout the second part of the morning reaching a peak of 1.5285 shortly after noon on the back of a commercial buying order from London. News that the Soviet Union was reducing the price of its Ural crude by \$2.15 a barrel caused a sharp setback over the lunch period and sterling fell equally swiftly to 1.5195. The US, however, were anxious to take the dollar lower and the bond market started the day in good heart. Although there was some nervousness over a Kuwait agency forecast that the Gulf States would announce a \$4 a barrel cut, sterling was marked up with the other currencies, to trade around 1.52½ for most of the afternoon. The rate ended at 1.5255. Three-month Euro-dollars closed 1/16% firmer at 9½% and the cost of forward cover fell to 2%.

The pound recovered a little more ground in Europe, closing at 3.75¼ in Germany, 3.06⅝ in Switzerland and 10.63¾ in France. The dollar, too, closed a little firmer in each of these centres at 2.4605, 2.0102 and 6.9735. There was no change in EMS, where the Belgian franc (48.13) again closed 2 3/16% below the guilder (2.7005). The Belgians sold guilders worth \$7mn., while the Dutch bought Belgian francs worth \$38mn. and deutschemarks worth \$12mn. The Italians bought \$62mn. and the Danes \$3mn., while the Germans sold \$6mn. and the Irish \$5mn. The yen improved to 238.77.

Gold continued in good demand and established itself above the \$500 level. Both fixings were at \$508.50.

Operations:	Market	+	\$17mn.
	Sundries	+	9
		+	\$26mn.

1st February 1983.

TRS

US BOND AND MONEY MARKETS

Tuesday, 1st February 1983

Federal Funds

Opening:	8½%
Range:	8½%
Close:	8½%

US Governments (NY closing bids)

2-year:	99¼	(-⅛)	9 11/16%
5-year:	98⅞	(-¼)	10⅜%
10-year:	98¼	(-)	10¾%
30-year:	94⅞	(-⅛)	11%

Euro-dollars (Today's opening London bid)

7-day:	9%
1-month:	9 3/16%
3-months:	9 7/16%
6-months:	9¾%

Federal Reserve Operations:

$1bn. customer repurchase agreement. Stop rate 8.46%.

3-month Treasury Bills	8 3/16%
3-month US bank CDs	8⅝%
Differential	7/16%

Indicators

US Factory Orders +4.8% in December

Comment:

The market opened slightly higher as anticipated customer interest in the 3-year auction prompted dealers to cover short positions. However as the day wore on, prices eased to close with small falls on the day.

The new $6½bn. 3-year was auctioned at an average of 9.98%.

2nd February 1983.

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