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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 2nd February 1983

Hopes of an early reduction in US interest rates were dashed last night by another indicator which showed signs that the economy might be on the verge of recovery (factory orders rose 4.8% in December) and the dollar continued to strengthen today on the exchanges. Sterling was a rather quiet market but the rate held up well until late business after the close. The ERI ended 0.3 higher at 81.3.

The IMM were aggressive buyers of dollars in New York last night and sterling fell back to close there at 1.5225. This morning the rate opened at 1.5203 and initially slipped back to 1.5175 as the dollar began to move higher. Some buying by a London bank at the lower levels then brought a swift turnaround and sterling traded up to 1.5255 within the first hour of business. However, when there was no follow-through to this early demand, the pound eased back to trade around 1.52 for the remainder of the day against a dollar which strengthened slowly elsewhere. The rate fell no lower than 1.5170 during the afternoon, as the dollar reached its best levels of the day, and it closed at 1.5196. After the close, as the IMM entered again to buy dollars, sterling fell back to a new low of 1.5105. Three-month Euro-dollars were 1/16% higher at 9 9/16% and the cost of forward cover narrowed to 1 1/8%.

Sterling was again firmer in Europe, gaining 1% in Switzerland (3.10) and 5/8% in France (10.71) and Germany (3.77 1/2). The dollar ended over 1% firmer in each of these centres at 2.0397, 7.0485 and 2.4870. By the close EMS was 2 1/4% between the Belgian franc (48.65) and the guilder (2.7270). The Belgians sold guilders worth \$4mn., while the Dutch bought \$24mn. of which \$4mn. was in Belgian francs and the balance in deutschemarks, and the Danes bought \$4mn. The yen fell 1% to 241.63.

Gold was a very active market but the price suffered from profit-taking and the strength of the dollar. Both fixings were at \$498.25.

Operations:	Market	+ \$1mn.
	Interest	+ 8
	Iran	+ 9
	PSB (Manchester)	+ 8
	IDA	+ 5
	Government	- 9
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		+ \$22mn.
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	Overnight	- \$15mn.
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2nd February 1983.

TRS

US BOND AND MONEY MARKETS

Wednesday, 2nd February 1983

Federal Funds

Opening: 8 $\frac{1}{4}$ %
Range: 8 $\frac{3}{8}$ % - 8 $\frac{3}{4}$ %
Close: 8 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{1}{4}$ (-) 9 11/16%
5-year: 98 $\frac{7}{8}$ (-) 10 $\frac{3}{8}$ %
10-year: 98 $\frac{1}{8}$ (- $\frac{1}{8}$) 10 13/16%
30-year: 94 $\frac{7}{8}$ (-) 11%

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

\$1.2bn. customer repurchase
agreement with Fed Funds at 8 $\frac{7}{8}$ %.
Stop rate 8.95%.

Bought \$200mn. Treasury Bills for
customers.

3-month Treasury Bills 8 3/16%

3-month US bank CDs 8 $\frac{5}{8}$ %

Differential + 7/16%

Indicators

Comment:

The market opened lower in response to the high funds rate and the poor 3-year auction the previous day. Just prior to the 10-year auction at 1.30, the market traded up on rumours of a better-than-expected demand for the new issue, and prices held these levels through the afternoon as the rumours were eventually confirmed.

The new \$4.5bn. 10 $\frac{1}{2}$ year was auctioned at an average of 10.94%.

3rd February 1983.

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