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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 3rd February 1983

Although today was quiet and rather steady on the exchanges in Europe, the dollar's sharp swings from day-to-day continued with most of the movement occurring overnight in New York. Last night rumours, which proved false, that the President might be prepared to defer the July tax cuts and an unexpectedly strong interest in the 10-year element of the US Treasury's refinancing package caused the dollar to weaken and it remained at its lower levels today. Sterling was very steady, but having failed to capitalise on the dollar's weakness last night, lost ground in effective terms. The ERI closed down 0.4 at 80.9.

Sterling recovered only slowly from last night's attack by the IMM and closed in New York against an easier dollar at 1.5205. This morning the dollar continued to weaken in the Far East but, again, sterling failed to respond and the rate opened in London at 1.5215. In a rather featureless market it traded throughout the day in a fairly narrow range moving no higher than 1.5265 at best in the early afternoon, after which it drifted away to close at the low of 1.5210. Three-month Euro-dollars were 3/16% easier at 9 3/8% and the cost of forward cover narrowed to 1 13/16%.

The pound lost some of its recent gains in Europe, falling 3/8% in Switzerland (3.07 3/8%) and 3/8% in Germany (3.75 1/4) and France (10.64 1/4). The dollar opened 3/8% down in each of these centres but lost no further ground, ending at 2.0212, 2.4670 and 6.9965. Some pressures began to develop in EMS which was fully stretched for much of the day between the Belgian franc (48.29) and the guilder (2.7079). The Belgians sold florins worth \$37mn., while the Dutch bought Belgian francs worth \$12mn. and deutschemarks worth \$6mn. In addition the French sold deutschemarks worth \$129mn. while the Germans sold \$3mn. at their fixing. The yen improved to 239.30.

Strong demand for silver in New York last night carried gold back above the \$500 level but by the close today, with reports of Middle East selling, it looked likely to slip lower. Fixings were at \$506 and \$503.50.

Operations:	Market	+	\$6mn.
	IDA	+	6
	Sundries	+	2
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		+	\$14mn.
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3rd February 1983.

TRS

US BOND AND MONEY MARKETS

Thursday, 3rd February 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 closing bids)

2-year: $99\frac{1}{8}$ ($-\frac{1}{8}$) $9\frac{3}{4}\%$
5-year: $98\frac{3}{4}$ ($-\frac{1}{8}$) $10\frac{1}{2}\%$
10-year: $99\frac{5}{8}$ ($-\frac{1}{8}$) $10\frac{15}{16}\%$
30-year: $94\frac{1}{8}$ ($-\frac{3}{4}$) $11\frac{1}{16}\%$

Euro-dollars (Today's opening
London bid)

7-day: $8\frac{13}{16}\%$
1-month: $9\frac{1}{16}\%$
3-months: $9\frac{5}{16}\%$
6-months: $9\frac{5}{8}\%$

Federal Reserve Operations:

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

Indicators

Comment:

Prices moved little during the morning. In the afternoon, the long end lost ground steadily on pessimism over the auction.

The new $\$3\frac{1}{2}$ bn. 30-year was auctioned at a yield of 11.01%.

4th February 1983.

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