

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSMonday, 7th February 1983

It was a rather perplexing day on the exchanges as the dollar weakened steadily throughout the latter part of the day although there were no developments on interest rates or in the credit markets to explain the extent of the movement. It was possibly more a reflection of an improvement in the deutschemark, following polls at the weekend showing a rise in Kohl's electoral prospects, and the relative strength of the deutschemark against the Swiss franc tended to confirm this. Sterling was in good demand throughout the day and traded with a reasonably firm tone. The ERI rose 0.2 to 81.2.

Although the \$2.7bn. increase in M1 announced on Friday evening was larger than generally expected, the dollar had eased slightly by the close there in New York and sterling ended at 1.5210. This morning the dollar recovered all of its losses in the Far East and opened firm with sterling at 1.5175. However, having touched 1.5157 in early business when an oil company was selling sterling, the rate began to move ahead as some strong buying interest developed out of Europe. By mid-morning, although the dollar was unchanged elsewhere, sterling reached 1.52 and it held this level at noon despite some modest commercial selling at this time. New York were also good buyers of sterling and although the demand was not on the scale of that seen earlier in the day, the rate moved up well as the dollar eased rapidly in other centres. Sterling closed at the high for the day of 1.5260. The strong rise continued after the close and the pound later traded up to 1.5340. Three-month Euro-dollars were 1/16% down from Friday at 9 7/16% and the cost of forward cover narrowed to 1 3/8%.

The pound gained 1/2% in Switzerland (3.10 1/2) but was otherwise unchanged in Europe, closing at 3.76 1/4 in Germany and 10.66 1/2 in France. The dollar was steady in Zurich (2.0342) but lost 1/2% in Frankfurt (2.4650) and Paris (6.9887). The Belgian franc (48.27) resumed its normal position at the bottom of EMS, 2 1/2% from the guilder (2.7092). The Italians bought \$75mn., while the Danes sold \$4mn. and the Germans \$3mn. at their fixing. The yen improved to 239.07.

Gold fell back on Friday night in New York and consolidated in active trading at the lower levels today. Fixings were at \$489 and \$490.25.

Operations:	Market	+	\$23mn.
	Iran	+	15
	Sundries	+	1
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		+	\$39mn.
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7th February 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 7th February 1983

Federal Funds

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

US Governments (NY closing bids)

2-year: 99 (-) $9\frac{3}{4}\%$
5-year: $98\frac{1}{2}$ (-) $10\frac{1}{2}\%$
10-year: $99\frac{3}{8}$ ($-\frac{1}{8}$) 11%
30-year: $93\frac{5}{8}$ ($-\frac{1}{8}$) $11\frac{1}{8}\%$

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

3-month Treasury Bills 8 $5/16\%$
3-month US bank CDs 8 $11/16\%$
Differential $\frac{3}{8}\%$

Indicators

Comment:

The market moved slowly higher through the morning with gains up to $\frac{3}{8}$, but reversed direction in the afternoon to show little change on the day.

8th February 1983.

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