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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 10th February 1983

The dollar continued its recent slide in at times rather thin and erratic trading on the exchanges. Prospects for a cut in US interest rates burned brighter following reports that Mr. Volcker saw rates declining and this helped to spark off a strong bond market performance. At the same time, rumours in Germany that the courts would rule against holding the March elections and that Kohl would, as a result, remain in power, strengthened the deutschemark and it moved almost to the top of EMS. This increased further the pressures within the system, necessitating heavy support for the weaker currencies and gave rise to speculation about a weekend realignment. After a comfortable start, sterling was unsettled by a statement from Yamani that an OPEC price cut was inevitable, but by the end of the day it had regained its composure. The ERI closed 0.2 lower at 81.0.

Sterling closed in New York last night at 1.5440 and opened in London this morning at 1.5445. As the dollar continued to weaken sharply in Europe in early business, sterling moved up smoothly with the other currencies, reaching 1.5523 within the first hour of trading. However, there were few buyers at the higher levels and when some sizeable selling developed out of Switzerland and some operators, long of sterling from earlier in the week, began to reduce their positions, the rate quickly fell back, although the dollar was not then moving elsewhere. The pound fell to 1.5455 at this time before recovering to 1.5485 in late morning. Following reports on the news services that Yamani regarded an OPEC price cut as inevitable, sterling again came under pressure in a thin market and the rate slipped sharply over the lunch period. It steadied at 1.5330, with the aid of some modest support, and recovered just as quickly after the entry of New York. With the dollar settling at its lower levels, sterling moved back above 1.54 to close at 1.5434. Three-month Euro-dollars were 1/16% lower at 9 3/16% and the cost of forward cover widened to 1 3/4%.

The pound was 1/2% easier in both Germany (3.72) and France (10.55 1/2) but unchanged in Switzerland (3.10 1/2). The dollar also lost 1/2% in each of the first two centres (2.4103 and 6.8365) but was steady in Zurich (2.0137). The guilder (2.6632) returned to the top of EMS, 2 3/16% above the Belgian franc (47.47) but was closely followed by the deutschemark. The French, concerned about the cross rate against the deutschemark, sold \$483mn. (of which \$265mn. was in deutschemarks), while the Belgians sold \$122mn., the Italians \$95mn., the Irish \$19mn. and the Danes \$6mn. The Dutch bought \$40mn. The Yen closed at 235.67.

Gold strengthened slowly. Fixings were at \$494.75 and \$496.

Operations:	Market	-	\$6mn.
	IDA	+	11
	Sundries	+	3
			<hr/>
		+	\$8mn.
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10th February 1983

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US BOND AND MONEY MARKETS

Thursday, 10th February 1983

Federal Funds

Opening: $8\frac{1}{2}\%$
Range: $8\frac{1}{8}\%$ - $8\frac{5}{8}\%$
Close: $8\frac{1}{2}\%$

US Governments

(NY close)

2-year: $99\frac{1}{2}$ ($+\frac{3}{8}$) $911\frac{1}{16}\%$
5-year: 99 ($+\frac{5}{8}$) $10\frac{3}{8}\%$
10-year: $100\frac{3}{8}$ ($+\frac{7}{8}$) $10\frac{1}{4}\%$
30-year: $95\frac{1}{2}$ ($+\frac{1}{8}$) $10\frac{1}{4}\%$

Euro-dollars

(Today's London opening-
middle rates)

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

Federal Reserve Operations

\$1.5bn. customer purchase
agreement with Fed Funds at $8\frac{5}{8}\%$
Stop rate 8.51%

3-month Treasury Bills $8\frac{3}{16}\%$
3-month US bank CDs $8\frac{7}{16}\%$
Differential $\frac{1}{8}\%$

Indicators

Retail Sales + 0.1% (with December revised to -1.1%)

Comment:

The market moved up modestly during the morning following reports that Volcker saw interest rates easing in the future. The retail sales announcement (against expectations of a rise of $\frac{1}{4}\%$) triggered a sharp rise in prices and the market closed at or near its highs.

11th February 1983

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