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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 11th February 1983

Following the disappointing US retail sales figure for January, the dollar appeared set to continue its recent downward progress as the markets reopened this morning. After a short while, however, it seemed as though there was no appetite for business and as the day quietly advanced the worst levels for the dollar were not held. The encouraging PPI figure of -1% for January had a similarly transient beneficiary effect on the US bond market. Sterling sat idly by for most of the day, the ERI slipping to 80.9.

In New York sterling closed yesterday at 1.5485. It opened at 1.5465 in London today and rose to 1.5525 as the dollar fell in Europe. A small selling order from Johannesburg was enough to halt this movement and for most of the day the rate stayed near the opening level, where in fact it closed. Three-month Euro-dollars shed another $\frac{1}{8}\%$ to 9 $\frac{1}{16}\%$, the cost of forward cover edging up to 1 $\frac{13}{16}\%$ p.a.

In Europe, the pound could not keep up and it eased to 3.71 $\frac{1}{2}$ in Germany, 3.09 $\frac{1}{2}$ in Switzerland and 10.53 $\frac{3}{8}$ in France. The deutschemark continued to lead the movement against the dollar and fell below 2.40 this morning - to 2.3950 very early on. By the close, after Bundesbank purchases of \$20mn., it had reduced its net advance to 2.4023 (about $\frac{1}{4}\%$ better than last night) and just pushed out the florin as strongest currency in EMS. The Bundesbank also bought \$4mn.-worth of Belgian francs, in whose defence the National Bank spent deutschemarks worth \$22mn. and florins worth \$11mn. The franc closed at 47.31, some 2 $\frac{3}{16}\%$ below the deutschemark. The French franc recovered to 6.8110, the French franc/deutschemark cross-rate to around 2.83 $\frac{1}{2}$ again; the French bought \$6mn. The Dutch bought \$60mn., the florin rising to 2.6557. The Danes sold \$10mn. (of which \$4mn. was in deutschemarks), the Italians sold \$16mn. The Swiss franc ended the week at 2.00, the yen at 234.52 (Tokyo was closed).

A recommendation from an advisory house to their clients to buy caused gold to surge swiftly through the \$500 mark late in New York yesterday. Hong Kong was celebrating the Chinese New Year. London took over, pushing the fixing this morning to \$506. Activity slowed down and the second session ended at \$504.50. New York then began to move it slightly lower.

Operations:	Iran	+	\$10mn.
	Interest	+	8
	Sundries	+	4
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		+	\$22mn.
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	Overnight	-	\$7mn.
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11th February 1983.

DAHB

US BOND AND MONEY MARKETS

Friday, 11th February 1983

Federal Funds

Opening: 8½%
Range: 8¼% - 8½%
Close: 8½%

US Governments

(NY close)

2-year: 99 (-¼) 9 13/16%
5-year: 98¾ (-⅛) 10¾%
10-year: 100¼ (-¼) 10¾%
30-year: 94¾ (-⅜) 11%

Euro-dollars

(Today's London opening-
middle rates)

7-day: 8¾
1-month: 9%
3-months: 9 3/16%
6-months: 9 7/16%

Federal Reserve Operations

\$1.5bn. customer repurchase
agreement with Fed Funds at 8½%.
Stop rate 8.34%.

Bought \$600mn. Treasury Notes for
customers.

3-month Treasury Bills 8¼%
3-month US bank CDs 8½%
Differential ¼%

Indicators

Producer Price Index -1% (against +0.1% in December)

M1 +\$1.9bn. prior to revisions (+\$5.9bn. after revisions)

M2 +\$48bn. }
M3 +\$22bn. } revisions less significant than expected

Comment:

The market gapped up by ⅛-⅝ at the opening in response to the PPI announcement, but with the higher prices being met by selling, the early gains were lost by mid-day. The market lost a further half point following the money announcement, with the figures in line with expectations, but the market disappointed that the revisions to the series had had little effect on their growth rates.

14th February 1983.

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