

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 16th February 1983

The stand-off on the exchanges was broken today by Volcker's testimony to the Senate Banking Committee. His statement that the new monetary targets for 1983 were fully compatible with lower interest rates caused the dollar to weaken sharply during the afternoon and this movement continued into late business. With widespread expectations of an imminent reduction in BNO's oil price, sterling was again a rather soft market and the ERI closed down 0.1 at 80.7.

Sterling closed a quiet evening in New York yesterday at 1.5420. This morning the rate opened at 1.5435 and drifted lower in quiet trading as the dollar slowly strengthened. At the low the rate touched 1.5378 in mid-morning but it had recovered to 1.5390 by noon. The release of the US industrial production index for January showing a smaller rise (+0.9%) than expected caused the dollar to begin to weaken and the pace of its decline accelerated as soon as Volcker started to speak. It continued to ease throughout the afternoon and sterling rose a little reluctantly to end at 1.5465, the high for the day. Later as the dollar fell further sterling was quoted up to 1.5515. Three-month Euro-dollars were 1/16% lower at 9½% and the cost of forward cover was 2%.

The pound was weaker in Europe, closing ¼% down in Germany (3.70¼), France (10.49¼) and Switzerland (3.06¾). The dollar, too, was easier in these centres at 2.3938, 6.7850 and 1.9827. In EMS the Belgian franc (47.11) was 2½% below the guilder (2.6452) but the relative strength of the deutschemark caused problems for the French franc which required \$253mn. of support (\$108mn. in deutschemarks) to hold its cross-rate. The Italians bought \$50mn. and the Danes and Irish sold \$3mn. each. The yen closed at 233.10.

Gold was active but unresponsive to the weaker dollar, fixing at \$506.75 and \$508.50.

Operations:	Market	+	\$18mn.
	Interest	+	4
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		+	\$22mn.
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16th February 1983.

TRS

US BOND AND MONEY MARKETS

Wednesday, 16th February 1983

Federal Funds

Opening: 8 $\frac{7}{8}$ %
Range: 8 $\frac{5}{8}$ % - 9 $\frac{1}{8}$ %
Close: 9 $\frac{1}{8}$ %

US Governments

(NY close)

2-year: 99 $\frac{1}{4}$ (+ $\frac{1}{4}$) 9 $\frac{5}{8}$ %
5-year: 99 $\frac{1}{2}$ (+ $\frac{1}{2}$) 10 $\frac{1}{4}$ %
10-year: 100 $\frac{1}{4}$ (+ $\frac{3}{4}$) 10 $\frac{3}{4}$ %
30-year: 95 $\frac{3}{8}$ (+ $\frac{7}{8}$) 10 $\frac{7}{8}$ %

Euro-dollars

(Today's London opening-
middle rates)

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

Federal Reserve Operations

\$1bn. customer repurchase
agreement with Fed Funds at 8 $\frac{7}{8}$ %.
Stop rate 8.85%.

Bought \$350mn. Treasury Bills for
customers.

3-month Treasury Bills 8 3/16%
3-month US bank CDs 8 $\frac{1}{2}$ %
Differential 5/16%

Indicators

Industrial Production +0.9% (December revised to +0.1%)
Housing starts +35% in January

Comment:

Prices opened unchanged, but began to move higher after the announcement of a lower-than-expected increase in industrial production and on a generally bullish reaction to Volcker's testimony before the Senate Banking Committee. After showing gains up to 1 point by noon, prices changed little during the afternoon.

The new \$7 $\frac{1}{2}$ bn. two-year was auctioned at an average of 9.71%.

17th February 1983.

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