

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 17th February 1983

Overnight reflection about the implications of Volcker's testimony yesterday led to less conviction that US rates would ease significantly in the short-term and the dollar regained a little of yesterday's losses in a rather nervous day's trading on the exchanges. The dollar's recovery may have been aided by some purchases of dollars by the German and Dutch central banks, although these were primarily intended to relieve pressure on the weaker currencies in EMS. Sterling was relegated to the sidelines but the tone remained very hesitant. The ERI closed unchanged at 80.7 after 80.6 at the start and at noon.

Although sterling struggled to 1.55 by the New York close yesterday, it failed to keep up with the weakening dollar. This morning the rate opened unchanged but immediately eased back in nervous trading with a little light selling from Scandinavia. In fairly active two-way business the rate several times reapproached 1.55, reaching 1.5502 on one occasion, but there were signs of resistance at this level and each time the rate fell back. When the dollar began to recover generally in mid-morning, sterling willingly moved back to trade around 1.5470 when, again, some two-way commercial interest was seen from Europe. New York were clearly determined at first to take the dollar higher and sterling weakened, although remaining fairly steady on the Continent. The rate touched 1.5430 before ending at 1.5446. Three-month Euro-dollars were unchanged at 9½% and the cost of forward cover was 1½%.

The pound was a little easier in Europe, closing at 3.70½ in Germany, 10.50½ in France and 3.07½ in Switzerland. The dollar was a little firmer in each of these centres at 2.3985, 6.8015 and 1.9892. In EMS, the deutschemark moved to top place, 2½% above the Belgian franc (47.25), putting pressure on the French franc which was supported by the Bank of France to the extent of \$108mn. in deutschemarks (after purchases of \$53mn. in New York last night). In addition, the Germans and the Dutch bought \$50mn. and \$40mn. for their own account while the Belgians sold guilders worth \$34mn. and the Irish sold \$18mn. The yen eased to 233.42.

Gold was an unexciting market. Fixings were at \$506 and \$504.75.

Operations:	Market	+	\$5mn.
	EEC	-	27
	Sundries	+	4
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		-	\$18mn.
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	Overnight	-	\$2mn.
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17th February 1983.

TRS

US BOND AND MONEY MARKETS

Thursday, 17th February 1983

Federal Funds

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

US Governments

(NY close)

2-year: 100 (+ $\frac{1}{8}$) 9 $\frac{5}{8}$ %
5-year: 99 $\frac{3}{4}$ (+ $\frac{1}{4}$) 10 3/16%
10-year: 101 $\frac{1}{4}$ (+ $\frac{5}{8}$) 10 $\frac{5}{8}$ %
30-year: 95 $\frac{7}{8}$ (+ $\frac{1}{2}$) 10 $\frac{7}{8}$ %

Euro-dollars

(Today's London opening-
middle rates)

7-day: 8 15/16%
1-month: 9%
3-months: 9 $\frac{1}{2}$ %
6-months: 9 5/16%

Federal Reserve Operations

Five-day repurchase agreement for
system account with Fed Funds
at 8 $\frac{5}{8}$ %. Stop rate 8.40%.

3-month Treasury Bills 8 3/16%
3-month US bank CDs 8 7/16%
Differential $\frac{1}{4}$ %

Indicators

Capacity Utilisation +0.5%

Comment:

lower
The market opened slightly/and remained in a narrow range
until mid-afternoon when interest from the futures market moved
prices higher.

18th February 1983.

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