FE2/24 Part 2

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th February 1983

The exchanges were rather erratic in thin trading. After some fairly sharp movements during the course of the day, the dollar ended unchanged to a little firmer in most centres. News of BNOC's proposal to reduce the price of North Sea oil by $3 a barrel lifted for a time the uncertainty about oil which has overhung sterling for the past few days but reports from Kuwait that some OPEC members would undercut the new BNOC price unsettled the market at the close. The ERI ended unchanged at 80.7 after a new low of 80.5 at the start.

Sterling lost ground in New York last night, ending there at 1.5415. This morning the rate opened at 1.5385 and initially moved back to 1.5366. However, as rumours of the BNOC reduction went through the market, sterling began to rise and when the wire services carried news of the proposal in mid-morning, this provoked some short-covering from those who had expected a larger cut and sparked off some good buying of sterling in London. Although the dollar was firming elsewhere at this time, sterling moved up in late morning and the pace of the advance quickened with the entry of New York. With the US bond market in good heart, the dollar eased throughout most of the afternoon and sterling again approached 1.55 on a number of occasions, but never traded above 1.5495. The statement from Kuwait late in the day that BNOC would be undercut by some OPEC members caused a sharp reaction in a thin market and the rate fell swiftly to 1.5435 at the close. Three-month Euro-dollars eased 1/16% to 9 1/16% and the cost of forward cover widened to 2%.

The pound was marginally firmer in Europe, ending at 3.70⅝ in Germany, 3.07⅝ in Switzerland and 10.50 in France. The dollar, too, was slightly higher in each of these centres at 2.4010, 1.9932 and 6.8045 respectively. In EMS, the guilder (2.6512) was back at the top, a full 2¼% above the Belgian franc (47.29). The deutschemark, however, remained very firm and again put pressure on the French franc which was supported to the extent of $329mn. by the Bank of France (of which $184mn. was in deutschemarks). The Belgians sold guilders worth $67mn., while the Dutch bought $25mn. (of which $5mn. was in Belgian francs) and the Irish and the Danes sold $4mn. and $3mn. respectively. The yen eased to 233.92.

Gold was quiet and a little easier. Fixings were at $502.25 and $503.50.

Operations:	Iran	+	$5mn.
	Zimbabwe	-	6
		-	$1mn.

18th February 1983.

for TRS

DATH

US BOND AND MONEY MARKETS

Friday, 18th February 1983

Federal Funds

Opening: 8⅜%

Range: 8¼% - 8½%

Close: 8¼%

US Governments

(NY close)

2-year:	100¼	(+¼)	9½%
5-year:	100⅛	(+⅜)	10 1/16%
10-year:	102	(+⅝)	10½%
30-year:	97	(+1⅛)	10¾%

Euro-dollars

(Today's London opening-middle rates)

7-day: 8 15/16%

1-month: 8 15/16%

3-months: 9 1/16%

6-months: 9¼%

Federal Reserve Operations

$1.5bn. customer repurchase agreement with Fed Funds at 8⅜%. Stop rate 8.15%.

3-month Treasury Bills	8%
3-month US bank CDs	8⅜%
Differential	⅜%

Indicators

M1 + $2.8bn.

Comment:

Prices rose steadily through the day to close at their highs, despite a larger-than-expected increase in M1.

21st February 1983.

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