

2/24/83

SECRET

1.5255 24 1/2 FER

THE DEPUTY GOVERNOR

FER 803 1.5280 24 1/2
(= 0.72)

FOREIGN EXCHANGE AND GOLD MARKETS

1.5230
2.4140
80.10

Wednesday, 23rd February

Developments on the oil front provoked further sharp swings in exchange rates in another active day's trading. From a firm opening the dollar strengthened for much of the day as the market appeared to over-react to the favourable implications of lower world oil prices for US inflation and balance of payments prospects. There was heavy turnover in sterling with commercial selling during the morning counterbalanced by professional buying in the latter half of the day. Although the rate looked vulnerable at times, particularly following Yamani's statement that the Gulf producers had agreed on an (undisclosed) new oil price, there was no serious pressure and the tone improved as the day wore on. The ERI ended 0.4 higher at 80.1.

As the dollar strengthened in New York last night on heavy demand from the IMM, sterling fell back to close there at 1.5160. This morning the rate opened at 1.5180 and reached 1.5210 in early business with, as yesterday, some professional buying from Eastern Europe. However, a large volume of commercial selling developed in mid-morning and the pound began to lose ground at this time. When Yamani was reported as saying that the Gulf producers had reached agreement on a new oil price, sterling dipped to 1.5165 shortly before noon and the rate continued to fall over the lunch period. The dollar strengthened further with the entry of New York and the rate fell to 1.5125 in mid-afternoon but recovered strongly as the dollar fell back from its best levels. With some strong professional buying encouraging short covering in the latter part of the day, the rate rose quickly to close at the high of 1.5228. Three-month Eurodollars were unchanged at 9% and the cost of forward cover narrowed to 2 5/16%.

The pound was firm in Europe, gaining 1 1/8% in Switzerland (3.10) and 3/4% in Germany (3.68 1/2) and France (10.45 1/2). The dollar was some 1/8% firmer in each of these centres at 2.0360, 2.4205 and 6.8665. In EMS, although the Belgian franc (47.72) at the bottom was fully stretched against the deutschemark at the top, no significant intervention was necessary. The Italians sold \$29mn. and the Danes \$11mn. The yen eased to 234.25.

With inflation prospects improving on the weaker oil price and fears that some OPEC oil producers might be forced into selling their gold holdings, the gold price fell further. Fixings were at \$479.25 and \$470.25.

Operations:	Market	+ \$2mn.
	Sundries	+ 5
		<u>+ \$7mn.</u>
	Overnight	<u>+ \$2mn.</u>

23rd February 1983.
TRS

\$478 3/4
3mths 9 1/8

US BOND AND MONEY MARKETS

Wednesday, 23rd February 1983

Federal Funds

Opening: 8½%
Range: 5% - 8¾%
Close: 5%

US Governments

(NY close)

2-year: 100¼ (-¼) 9 1/2%
5-year: 100¾ (-¼) 10%
10-year: 102½ (-¾) 10 7/16%
30-year: 97¾ (-¾) 10 5/8%

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: 9 5/16%

Federal Reserve Operations

Repurchase agreement for system
account with Fed. Funds at 8¾%.
Stop rate 8.25%. Bought \$275mn.
Treasury Bills for customers.

3-month Treasury Bills 8%
3-month US bank CDs 8 5/16%
Differential 5/16%

Indicators

Durable goods +4.5% in January (December revised to +8.5%).

Comment:

The market was little changed until mid-afternoon, when durable goods orders for January were released. The increase, against market expectations of a decline, caused prices to fall by as much as ¾ and to remain weak for the rest of the day.

The new \$5½bn. 5-year was auctioned at an average of 9.96%.

24th February 1983.

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