

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 24th February

The exchanges kept up the recent pattern of heavy trading and sharp movements in rates but, with no new developments in the oil sector, it was interest rates which provided the stimulus today. With large orders to sell the dollar in the market during the morning, a forecast of an early cut in the Fed's discount rate from one of Wall Street's senior economic commentators pushed the dollar lower in the second half of the day. There was again substantial turnover in sterling and the conversion of a large sterling borrowing was accommodated without serious pressure developing on the rate. The disappointing January trade figures also passed without much comment and the ERI closed 0.1 higher at 80.2.

Sterling was in some demand in New York last night and touched 1.5330 before closing at 1.5255. This morning the rate opened rather nervously at 1.5223 but it soon began to rise helped by some professional demand from London banks, to reach 1.5286 in the first half hour of trading. However, as yesterday, there were numerous commercial sellers, including some UK oil companies, at the higher levels and as the proceeds of a large sterling borrowing were also being converted, the rate looked vulnerable for much of the morning. Although the dollar was tending easier elsewhere, sterling fell to 1.5231 at noon and to 1.5195 in the early afternoon. However, when the news services highlighted Wojnilower's prediction of an early  $\frac{1}{2}\%$  cut in the Fed's discount rate (from a speech which was for the most part very cautious about the prospects for further easing in Fed policy) the dollar weakened sharply and sterling moved quickly ahead, reaching 1.5305 immediately before the release of the trade figures. While these gave rise to a short-lived setback to 1.5275, the rate recovered to touch 1.5315 before closing at 1.5295. Three-month Eurodollars were  $1/16\%$  firmer at  $9\ 1/16\%$  and the cost of forward cover was unchanged at  $2\ 5/16\%$ .

The pound was  $\frac{1}{4}\%$  easier in Europe, closing at 3.67 $\frac{3}{4}$  in Germany, 3.09 $\frac{1}{2}$  in Switzerland and 10.43 $\frac{1}{2}$  in France. The dollar lost  $\frac{5}{8}\%$  in each of these centres to end at 2.4045, 2.0240 and 6.8225. The strength of the deutschemark at the top of EMS put pressure on the weaker currencies and the French sold \$178mn. in deutschemarks to protect their cross rate, while the Belgians sold \$44mn. of which \$29mn. was in guilders and the balance in deutschemarks. In addition the Dutch bought Belgian francs worth \$5mn., while the Italians sold \$140mn, the Irish \$21mn. and the Danes, who slipped towards the middle of the band, \$15mn. The Norwegians sold \$54mn. The Yen closed at 233.87.

Gold consolidated at its new lower levels. Fixings were at \$473.75 and \$475.

Operations:	Merseyside	
	Council	
	(PSB guaranteed)	+ 5mn.
	Interest	+ 5
	Government	- 7
	Sundries	+ 1
		<hr/>
		+ \$4mn.
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24th February 1983.

TRS

US BOND AND MONEY MARKETS

Thursday, 24th February 1983

Federal Funds

Opening:  $8\frac{3}{8}\%$   
Range:  $8\frac{1}{4}\%$  -  $8\frac{1}{2}\%$   
Close:  $8\frac{1}{2}\%$

US Governments

(NY close)

2-year:  $100\frac{3}{8}$  ( $+\frac{1}{8}$ )  $9\frac{3}{8}\%$   
5-year:  $99\frac{1}{2}$  ( $+\frac{1}{8}$ )  $10\%$   
10-year:  $102\frac{7}{8}$  ( $+\frac{3}{8}$ )  $10\frac{3}{8}\%$   
30-year:  $98\frac{1}{8}$  ( $+\frac{1}{2}$ )  $10\frac{5}{8}\%$

Euro-dollars

(Today's London opening-  
middle rates)

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

Federal Reserve Operations

3-month Treasury Bills  $7\frac{15}{16}\%$   
3-month US bank CDs  $8\frac{5}{16}\%$   
Differential  $\frac{3}{8}\%$

Indicators

Comment:

In light activity the market moved gradually higher helped by comments by Wojnilower (First Boston economist) who predicted an impending discount rate cut and by Volcker.

25th February 1983

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