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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 25th February 1983

Perhaps exhausted by the gyrations earlier in the week, the exchanges were quieter today and rates remained within a relatively narrow range. Although a further reduction in the rate of US inflation (consumer prices +0.2% in January) and $\frac{1}{2}$ % cut in prime rates to 10 $\frac{1}{2}$ % renewed optimism over a cut in the Fed's discount rate tonight, the dollar ended above yesterday's levels. Sterling traded comfortably and the ERI closed 0.2 higher at 80.4

The IMM were aggressive buyers of the dollar, which strengthened sharply in New York last night, but sterling held up well to close at 1.5270. This morning the rate opened at 1.5250 and traded fairly narrowly either side of this level throughout the morning, falling no lower than 1.5132. Some demand on oil company account, perhaps for the payment of PRT, was offset by some professional selling. As the dollar eased during the afternoon following the prime rate cuts, sterling moved above 1.53 for a while, reaching 1.5315 at best before ending at 1.5294. Three-month Euro-dollars were 3/16% lower at 8 $\frac{7}{8}$ % and the cost of forward cover widened to 2 $\frac{1}{2}$ %.

The pound gained $\frac{3}{8}$ % in Europe, closing at 3.69 in Germany, 3.10 $\frac{1}{2}$ in Switzerland and 10.47 $\frac{1}{8}$ in France. The dollar, too, was rather firmer in each of these centres at 2.4130, 2.0297 and 6.8465 respectively. EMS continued fully stretched for most of the day: the French spent \$194mn. in deutschemarks to protect their cross rate, while the Belgians, at the bottom of the band, spent \$106mn., \$101mn. in deutschemarks and \$5mn. in guilders. The Germans bought Belgian francs worth \$1mn., while the Italians sold \$66mn., the Danes \$31mn. (of which \$5mn. was in deutschemarks) and the Irish \$26mn. The yen closed at 235.

Gold slipped as inflationary expectations appeared to be further reduced by the improving US position. Fixings were at \$470.75 and \$464.75.

Operations: NIL

25th February 1983.

TRS

US BOND AND MONEY MARKETS

Friday, 25th February 1983

Federal Funds

Opening: 8½%
Range: 8-8¼%
Close: 8½%

US Governments

(NY close)

2-year: 100½ (+½) 9 5/16%
5-year: 99¾ (+½) 9 ¾%
10-year: 103¾ (+½) 10¼%
30-year: 98¾ (+½) 10½%

Euro-dollars

(Today's London opening-
middle rates)

7-day: 8¼%
1-month: 8 11/16%
3-months: 8 13/16%
6-months: 9%

Federal Reserve Operations

Sold \$200mn. Treasury Bills for
customers

3-month Treasury Bills 7¾%
3-month US bank CDs 8½%
Differential ½%

Indicators

Consumer Price Index +0.2%

MI -\$1.5bn

Citibank and some other major banks reduced their prime rates
by ½% to 10½%.

Comment:

The market moved up sharply at the opening, following the
CPI announcement and with the market hoping for a discount rate cut,
and moved higher as the Fund's rate dipped to 8%. Later the
absence of the discount rate cut led to a modest decline in prices.

28th February 1983

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