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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 28th February 1983

Gold moved to the centre of the stage today as the counter-inflationary implications of the prospective cuts in the oil price precipitated a tremendous shake-out of speculative positions and the price fell nearly 15% from Friday. Meanwhile, the dollar strengthened as the market interpreted US interest rates as likely to remain relatively firm in the light of the Fed's failure to reduce their discount rate on Friday and the ½% cut to 4% made by the Dutch today. After two-way business during the morning, selling pressure from the IMM amongst others developed late in the day and sterling's ERI closed down 0.2 at 80.2.

The pound closed at 1.5275 in New York on Friday evening and opened in London against a stronger dollar at 1.5235 today. Having touched 1.5249 in early business, the rate settled around 1.5225 for most of the morning in fairly active two-way trading with the dollar moving little elsewhere. Immediately on the entry of New York, the dollar started to strengthen and sterling initially held up well, falling back to the 1.52 level but gaining ground at this time against the Continental currencies. However, as the afternoon wore on, selling from South Africa was reinforced by pressure from the IMM and the rate slipped back with the other Europeans. It closed at the low for the day of 1.5155 but continued to slide in late business, trading as low as 1.5110. Three-month Euro-dollars were ⅛% lower at 8¾% and the cost of forward cover widened to 2 9/16%.

The pound's performance in Europe was a little mixed: it closed ½% firmer in Switzerland (3.12⅛) but a little easier in both Germany (3.68¾) and France (10.45⅝). The dollar was almost 1% firmer in each of these centres, at 2.06, 2.4335 and 6.9005. The Dutch discount rate left the deutschemark clear at the top of EMS, 2 3/16% above the Belgian franc (47.94). The weekend over, the French recouped deutschemarks worth $38mn. and the Italians $53mn. The yen fell 1% to 237.72.

The dramatic fall in the gold price made for a very nervous market throughout the day. Having touched $398 in Hong Kong very early this morning, the market opened in London at $420 and traded down from this level for most of the day. Large amounts were offered at each of the fixings, which were at $419.75 and $408.50, as speculative long positions were cut.

Operations:	Market	-	$4mn.
	Electricity (PSB G'teed)	+	46
	Interest	+	6
	IDA	+	6
	Government	-	32
	BIS	-	6
	Sundries	+	2
		+	$18mn.
	Overnight	-	$23mn.

The result for February is a fall in reserves of $276mn. to a level of $16,578mn. after net repayments of public sector borrowing of $105mn. The oversold forward position was reduced by $23mn. to $6mn.

28th February 1983.
TRS

US BOND AND MONEY MARKETS

Monday, 28th February 1983

Federal Funds

Opening:	8⅜%
Range:	8¼% - 8½%
Close:	8⅜%

US Governments

(NY close)

2-year:	100½	(-)	9 5/16%
5-year:	100	(+⅛)	9⅞%
10-year:	103⅝	(-)	10¼%
30-year:	98⅞	(+⅛)	10½%

Euro-dollars

(Today's London opening- middle rates)

7-day:	8⅞%
1-month:	8 13/16%
3-months:	8 15/16%
6-months:	9%

Federal Reserve Operations

$1.5bn. customer repurchase agreement with Fed Funds at 8¼%. Stop rate 8.13%.

Sold $250mn. Treasury Bills and bought $325mn. Treasury Bills for customers.

3-month Treasury Bills	8%
3-month US bank CDs	8¼%
Differential	¼%

Indicators

US trade deficit $3.0bn. (after $3.4bn. in December)

Comment:

The market opened little changed at the short end, but up to ⅝ higher at the long end. During the day, the gains at the long end were lost in fairly quiet trading.

1st March 1983.

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