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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 1st March 1983

The dollar again moved higher on the exchanges today following an unexpectedly modest US trade deficit in January (\$3.0bn.) and on the belief that, against the background of falling oil prices, the US might be about to embark on a period of non-inflationary economic growth. The dollar may have benefited too from outflows from the gold market and the uncertainty generated by falling oil prices. Although easier against the dollar, the deutschemark's position at the head of EMS caused problems for the weaker currencies for whom sizeable support was necessary. Sterling remained a rather nervous market and some widespread selling was seen during the morning. The rate touched new all-time lows against the dollar and the ERI ended 0.2 lower at 80.0.

Sterling fell to 1.5060 in New York last night, under pressure of IMM selling, before closing there at 1.5075. This morning the rate opened at 1.5110 and traded up to 1.5116 before settling hesitantly around 1.51 but with no clear trend. However, when a UK oil company started to sell sterling in mid morning and some professionals from Europe joined in as well the rate slipped back steadily although the dollar was unchanged elsewhere. Sterling touched a new low of 1.5050 in late morning but had recovered on profit-taking to 1.5078 at noon. The afternoon was uneventful and with the dollar showing no clear sense of direction, sterling remained around its mid-day levels in light activity, ending at 1.5077. However, in late business the pound again encountered some selling pressure and the rate was briefly quoted down to another low of 1.5043. Three-month Euro-dollars were  $\frac{1}{8}\%$  firmer at  $8\frac{3}{8}\%$  and the cost of forward cover narrowed to  $2\frac{3}{8}\%$ .

The pound was a little weaker in Europe, closing at  $3.68\frac{1}{2}$  in Germany,  $10.44\frac{1}{2}$  in France and  $3.11\frac{1}{2}$  in Switzerland. The dollar ended  $\frac{3}{8}\%$  higher in each of these centres at 2.4427, 6.9260 and 2.0652. EMS was  $2\frac{3}{16}\%$  wide at the close with the French selling \$303mn. (\$47mn. in deutschemarks) to protect their cross-rate and the Belgians, at the bottom of the band, deutschemarks worth \$54mn., while the Germans bought Belgian francs worth \$17mn. The Irish sold \$30mn. The yen fell to 238.65.

Gold touched \$387 in Hong Kong early this morning but stabilised a little in London today as OPEC struggled to reach an agreed position on an oil price cut. Fixings were at \$414.50 and \$414.

Operations:	Market	+	\$15mn.
	Interest	+	13
	IDA	+	10
	Sundries	+	3
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		+	\$41mn.
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	Overnight	-	\$37mn.
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1st March 1983.

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US BOND AND MONEY MARKETS

Monday, 1st March 1983

Federal Funds

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

US Governments

(NY close)

2-year: 100¼ (+½) 9¼%  
5-year: 100½ (+¾) 9¾%  
10-year: 104¼ (+½) 10 3/16%  
30-year: 99¼ (+¾) 10¾%

Euro-dollars

(Today's London opening-  
middle rates)

7-day: 8 15/16%  
1-month: 8 13/16%  
3-months: 8¾%  
6-months: 9%

Federal Reserve Operations

\$2bn. customer repurchase  
agreement with Fed Funds at 8½%.  
Stop rate 8.34%.

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

Indicators

Comment:

Prices moved little during the morning, but, following the Fed's action at noon and on hopes for a sharp reduction in oil prices, the market moved steadily higher through the afternoon. Trading, however, remained fairly light.

1st March 1983.

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