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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 2nd March 1983

Sterling set new lows today in a nervous and volatile day's trading on the exchanges. The pound's fortunes ebbed and flowed in accordance with the latest despatches on the oil producers' attempt to avoid a price war. A report from Algeria in mid-morning that an overall production ceiling had been agreed helped the pound to recover sharply from its weak opening levels but Saudi Arabia's warning, that without agreement on individual producer's limits the Gulf states would make cuts of \$5-7 a barrel, brought a swift relapse. The ERI closed at a new low of 79.6, down 0.4 on the day. Meanwhile, the dollar was rather easier after a strong US bond market performance yesterday and the French franc's problems in EMS grew worse with the leak of a proposal for a two-stage franc devaluation.

Although the dollar was generally easier in New York last night, sterling was under heavy selling pressure and the rate dipped briefly below 1.50 to set a new all-time low of 1.4975 before recovering to 1.5007, with the aid of some official support. This morning the rate opened at 1.5023 but, after some quiet early trading, selling pressure developed from London banks. Although the dollar was easing further elsewhere at this time, in very nervous trading conditions, sterling again fell through 1.50, to 1.4975, before bouncing back helped by some strong professional buying interest in London. As the Algerian news of the consensus on an oil production ceiling came over the news services, the pound rose rapidly as the selling dried up and some demand for sterling against deutschemarks was seen. At best the pound reached 1.5150 in late morning before relapsing to 1.5060 after mid-day, following the warning from Saudi Arabia. The afternoon was quiet and both sterling and the dollar elsewhere remained within a narrow range; the rate closed towards the lower end, at 1.5067. Both three-month Euro-dollars and the cost of forward cover were unchanged at 8 $\frac{3}{8}$ % and 2 $\frac{3}{8}$ % respectively.

The pound was weaker in Europe. In Germany it set a new four-year low of 3.64 $\frac{3}{4}$  before ending  $\frac{3}{4}$ % down on the day at 3.65 $\frac{1}{2}$ . It lost  $\frac{5}{8}$ % in both France (10.37 $\frac{3}{4}$ ) and Switzerland (3.09 $\frac{1}{2}$ ). The dollar closed  $\frac{1}{2}$ % below yesterday's levels at 2.4281 in Frankfurt, 6.8875 in Paris and 2.0517 in Zurich. The deutschemark lengthened its lead at the head of EMS, keeping the Belgian franc fully-stretched throughout the day and putting the French franc under further pressure. The French spent \$410mn. (\$343mn. in deutschemarks) holding their cross-rate, while the Belgians sold deutschemarks worth \$89mn. and the Germans bought Belgian francs worth \$11mn. The Irish sold \$38mn. and the Danes \$25mn. The yen improved to 237.15.

In active trading gold recovered sharply as, on balance, prospects for an agreed OPEC position on oil prices appeared to brighten a little. Fixings were at \$431 and \$430.

Operations:	Market	-	\$6mn.
	Interest	+	8
	Sundries	-	1
			<hr/>
		+	\$1mn.
			<hr/> <hr/>

2nd March 1983.

TRS

US BOND AND MONEY MARKETS

Wednesday, 2nd March 1983

Federal Funds

Opening:  $8\frac{3}{4}\%$   
Range:  $8\frac{3}{8}\%$  -  $8\frac{7}{8}\%$   
Close:  $8\frac{3}{8}\%$

US Governments

(NY close)

2-year:  $100\frac{7}{8}$  ( $+\frac{1}{8}$ )  $9\frac{1}{8}\%$   
5-year:  $100\frac{5}{8}$  (-)  $9\frac{3}{4}\%$   
10-year:  $104\frac{3}{8}$  ( $+\frac{1}{4}$ )  $10\frac{1}{8}\%$   
30-year:  $99\frac{7}{8}$  ( $+\frac{1}{8}$ )  $10\frac{3}{8}\%$

Euro-dollars

(Today's London opening-middle rates)

7-day:  $8\frac{15}{16}\%$   
1-month:  $8\frac{13}{16}\%$   
3-months:  $8\frac{7}{8}\%$   
6-months:  $9\%$

Federal Reserve Operations

Repurchase agreement for system account with Fed Funds at  $8\frac{3}{4}\%$ .  
Stop rate 8.56%.

3-month Treasury Bills  $8\%$   
3-month US bank CDs  $8\frac{1}{4}\%$   
Differential  $\frac{1}{4}\%$

Indicators

Leading indicators  $+3.6\%$  (after revised  $+0.8\%$  in December)

Comment:

The market drifted lower until mid-afternoon, by which time prices had fallen by as much as  $\frac{1}{4}$ . Comments by Volcker on interest rate prospects moved prices higher and the market closed little changed on the day.

3rd March 1983.

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