

2/24

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 16th March 1983

A rather quiet day in the markets with exchange rates remaining in a fairly narrow range. The dollar ended the day more or less unchanged against the stronger currencies but, with the weekend approaching, it made considerable gains against the weaker currencies as EMS began to return to its normal configuration. While the Budget itself appeared to have little impact on sterling, there was some nervousness, particularly following the cuts in the Bank's bill dealing rates, that a second cut in base rates might not be long delayed. The market was unsettled, too, by reports that BNOC was under pressure from customers to reduce further the price of North Sea oil. The ERI closed down 0.1 at 79.3.

Some selling by the IMM in New York last night took the pound down to 1.5090 before the close there at 1.5133. This morning the rate opened at 1.5130 against an unchanged dollar and rose to 1.5140 in the early going with some buying by US banks in London. However, as on a number of days recently, some moderate selling was seen from an oil company and the rate gave further ground. With the dollar strengthening elsewhere, the rate slipped slowly but steadily during the morning, reaching 1.5079 at noon. News of the Bank's lower dealing rates came over the tapes at a time when early New Yorkers were selling sterling and the pound fell to 1.5040 at the low before steadying with the aid of some modest support. As yesterday some good professional buying interest from Eastern Europe was also seen at this time and sterling recovered to trade around 1.5060 for most of the afternoon, closing at 1.5070. Three-month Euro-dollars were unchanged at 9¼% and the cost of forward cover narrowed to 1 3/16%.

The pound lost ¾% in Germany (3.59) and Switzerland (3.09½) but gained 1¼% in France (10.28½). The dollar was almost unchanged in the first two centres at 2.3826 and 2.0520 respectively but rose sharply in Paris (6.8250). Movements in EMS were interesting: the deutschemark returned to the top and the punt (1.3840) remained at the bottom outside the margin by the London close. Within the band both the French and Belgian francs weakened but they did not require any support. The only intervention was by the Italians, who sold \$62mn. and the Irish, who sold \$49mn. (of which \$19mn. was in deutschemarks). The yen closed at 237.25.

The gold market was unsettled by the possibility of a further cut in North Sea prices and the price weakened. Fixings were at \$424 and \$419.

| | | | |
|-------------|----------|---|-------------|
| Operations: | Market | - | \$24mn. |
| | IDA | + | 25 |
| | Interest | + | 8 |
| | Sundries | - | 4 |
| | | | <hr/> |
| | | + | \$5mn. |
| | | | <hr/> <hr/> |

16th March 1983.

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US BOND AND MONEY MARKETS

Wednesday, 16th March 1983

Federal Funds

Opening: 9%
Range: 8 $\frac{5}{8}$ % - 9%
Close: 9%

US Governments

(NY close)

2-year: 99 $\frac{5}{8}$ (- $\frac{3}{8}$) 9 $\frac{1}{4}$ %
5-year: 98 $\frac{7}{8}$ (- $\frac{1}{2}$) 10 $\frac{1}{8}$ %
10-year: 101 $\frac{1}{8}$ (- $\frac{1}{2}$) 10 $\frac{5}{8}$ %
30-year: 97 $\frac{1}{8}$ (- $\frac{1}{2}$) 10 $\frac{3}{4}$ %

Euro-dollars

(Today's London opening-
middle rates)

7-day: 9%
1-month: 9 3/16%
3-months: 9 5/16%
6-months: 9 7/16%

Federal Reserve Operations

\$2bn. customer repurchase
agreement with Fed Funds at 8 $\frac{7}{8}$ %.
Stop rate 8.66%.

Bought \$400mn. Treasury Bills
for customers.

3-month Treasury Bills 8 $\frac{3}{8}$ %
3-month US bank CDs 8 $\frac{5}{8}$ %
Differential $\frac{1}{4}$ %

Indicators

Capacity utilisation +0.2% in February (January revised to +1%)
Housing starts +3% in February

Comment:

The market traded in a narrow range below the previous night's closing level until the results of the two-year auction were announced. The results disappointed the market - the yield at 9.66% was higher than expected and the amount tendered lower than expected - and the market lost a further $\frac{3}{8}$.

17th March 1983.

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