

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 23rd March 1983

The dollar strengthened further today on the exchanges as dealers looked for US short term interest rates to remain very firm in the light of the reports of the Fed's less accommodative stance. It ended, however, a little below its best levels following a further sharp fall in the rate of inflation (CPI - 0.2% in February). As interest gradually moved away from EMS, where positions continued to be unwound and the Belgians took the opportunity to reduce their discount rate by 3%, to 11%, sterling again began to attract attention. With North Sea oil prices easing lower on the Rotterdam spot market, the Government known to be opposed to raising interest rates and a spokesman expressing unconcern at the pound's weakness, there were few buyers of sterling, which fell to another new low against the strong dollar. The ERI also closed at a low at 78.3, down 0.2 on the day.

The pound closed quietly in New York last night at 1.4735 and opened at the same level in London this morning against an unchanged dollar. However, the dollar soon began to move higher and some steady selling of sterling developed out of Germany. By mid-morning the rate had fallen to 1.4650 and when an oil company and some of the major US banks in London also came in as sellers, the rate continued to slide. It fell to a low of 1.4585 shortly after noon, when early New Yorkers were bidding for dollars, but held fairly steady against the major continental currencies. The fall in US inflation in February took some of the steam out of the dollar during the afternoon and allowed sterling to move precariously above its lower levels, to end at 1.4616. Later, however, it was quoted down to another low of 1.4580. Three-month Euro-dollars closed unchanged at 9 $\frac{5}{8}$ % and the cost of forward cover widened to 1 1/16%.

Sterling's weakness against the dollar was shared in Europe where it held steady at 3.54 $\frac{1}{4}$ in Germany, 10.62 $\frac{1}{2}$ in France and 3.04 $\frac{1}{2}$ in Switzerland. The dollar ended $\frac{1}{2}$ % firmer in each of these centres, at 2.4236, 7.2690 and 2.0832. The punt (1.3037) remained top of EMS, just ahead of the French franc, 2 3/16% above the deutschemark. The French recouped a further \$311mn. in deutschemarks, the Italians \$200mn. and the Danes and the Irish \$38mn. each in deutschemarks, while the Germans sold \$81mn. and French francs worth \$76mn. The yen alone stood out against the strength of the dollar, helped by heavy demand from Switzerland and, as yesterday, good commercial buying from the Far East; it closed a little firmer on the day at 238.87.

Gold suffered both from the concern over the oil price and the firmness of US interest rates and the price fell throughout the day. Fixings were at \$413 and \$410.

Operations:	Market	- \$2mn.
	SARB	- 7
	Sundries	+ 3
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		- \$6mn.
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23rd March 1983

TRS

US BOND AND MONEY MARKETS

Wednesday, 23rd March 1983

Federal Funds

Opening: 8 $\frac{5}{8}$ %
Range: 8 $\frac{1}{4}$ % - 9 $\frac{1}{8}$ %
Close: 9%

US Governments

(NY close)

2-year: 99 $\frac{3}{4}$ (+ $\frac{1}{4}$) 9 $\frac{3}{4}$ %
5-year: 98 $\frac{5}{8}$ (+ $\frac{3}{8}$) 10 $\frac{1}{4}$ %
10-year: 102 $\frac{1}{2}$ (+ $\frac{5}{8}$) 10 $\frac{1}{2}$ %
30-year: 98 $\frac{1}{2}$ (+1) 10 $\frac{5}{8}$ %

Euro-dollars

(Today's London opening-
middle rates)

7-day: 9 13/16%
1-month: 9 $\frac{1}{2}$ %
3-months: 9 9/16%
6-months: 9 11/16%

Federal Reserve Operations

\$2bn. customer repurchase
agreements with Fed Funds at
8 $\frac{3}{4}$ %. Stop rate 8.53%.
Bought \$280mn. Treasury Bills
for customers.

3-month Treasury Bills 8 9/16%
3-month US bank CDs 8 7/8%
Differential 5/16%

Indicators

Consumer Price Index -0.2% (after +0.2% in January)

Comment:

Early gains following the CPI announcement were lost by noon, but in mid-afternoon, prices again began to move higher. Good results from the seven year auction produced further gains of up to $\frac{3}{8}$ %.

The new \$4.75bn. 7 year was auctioned at a yield of 10.58%

24th March 1983

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