

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 5th April 1983

The pound continued to benefit from the firmer outlook for oil prices, with the acceptability to OPEC of BNOC's new proposals being confirmed by Nigeria over the weekend and by Kuwait today. As a result, sterling moved steadily higher, rising above 1.50 against the dollar. The ERI closed up 0.8 at 80.3.

The official announcement from Lagos that BNOC's price cuts were broadly in line with Nigerian and OPEC thinking was helpful to sterling over a quiet Easter weekend, and the pound moved up, against a softer dollar, to 1.4890 in New York on Monday evening. After opening in London at 1.4913 today, the rate initially eased back to 1.4890, on some professional selling from Eastern Europe and Germany, before recovering to trade around 1.49½. Later in the morning a UK oil company made a significant purchase of sterling and with the banks apparently reluctant to go short of sterling at current levels, the rate rose quickly to reach 1.5025 in the early afternoon. New York initially took the dollar sharply higher and the rate moved down to 1.4982, but with sterling gaining against the other major currencies. However when the US bond market reacted favourably to an article in the Wall Street Journal which reported a Fed official as saying that the recent rise in interest rates had gone too far, the dollar lost ground and sterling regained the 1.50 level, to close at 1.5008. Three-month Euro-dollars were unchanged at 9 11/16% and the cost of forward cover narrowed to ½%.

Sterling continued to improve against the European currencies, gaining 1½% against the deutschemark (3.63½) and French franc (10.89½) and ½% against the Swiss franc (3.09½). The dollar moved lower over the weekend as the end-quarter pressures on US interest rates began to ease, and although recovering somewhat during today's trading, closed with losses ranging between ½% for the deutschemark (2.4198) and French franc (7.26) and 1½% against the Swiss franc (2.0597). The French franc headed EMS by the close with the guilder displacing the deutschemark at the bottom. After buying \$38mn.-worth of deutschemarks in New York on Friday, the French bought \$45mn. (\$31mn. in deutschemarks and \$14mn. in guilders), the Belgians bought guilders worth \$81mn., the Danes guilders worth \$43mn. and the Italians \$40mn. while the Dutch sold \$96mn. (\$74mn. in French francs, \$22mn. in Danish crowns) and the Germans sold \$4mn. of French francs. The yen improved by ½% to 238.05.

Gold moved higher yesterday afternoon in New York on the back of demand for silver, but changed little further in quiet trading today. Fixings were at \$425.75 and \$426.75.

Operations:	Market	+	\$27mn.
	Interest	+	5
	IDA	+	5
	Sundries	+	2
	Ghana	-	8
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		+	\$31mn.
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5th April 1983.

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US BOND AND MONEY MARKETS

Tuesday, 5th April 1983

Federal Funds

Opening: 9 $\frac{3}{8}$ %
Range: 9% - 9 $\frac{1}{2}$ %
Close: 9%

US Governments

(NY close)

2-year: 99 $\frac{7}{8}$ (+ $\frac{1}{4}$) 9 $\frac{3}{4}$ %
5-year: 99 (+ $\frac{1}{2}$) 10 $\frac{1}{8}$ %
10-year: 102 $\frac{1}{2}$ (+ $\frac{5}{8}$) 10 $\frac{1}{2}$ %
30-year: 98 $\frac{3}{8}$ (+1) 10 $\frac{1}{2}$ %

Euro-dollars

(Today's London opening-
middle rates)

7-day: 9 $\frac{5}{8}$ %
1-month: 9 9/16%
3-months: 9 $\frac{5}{8}$ %
6-months: 9 $\frac{3}{4}$ %

Federal Reserve Operations

\$2bn. customer repurchase agreement
with Fed Funds at 9 $\frac{1}{2}$ %. Stop rate
9.33%.

3-month Treasury Bills 8 9/16%
3-month US bank CDs 8 15/16%
Differential $\frac{3}{8}$ %

Indicators

Comment:

The market opened $\frac{1}{4}$ higher and continued to improve throughout the day, fuelled by a Wall Street Journal article quoting an unnamed Fed official as saying long interest rates were too high, and by the expectation that the present high short-term rates would fall significantly after the end quarter pressures eased.

6th April 1983.

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