

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSWednesday, 13th April 1983

The conjuncture yesterday afternoon in New York of a weak retail sales figure, a low Federal Funds rate and some mildly constructive remarks from Mr. Volcker would normally have triggered a bond market rally and led to a lower dollar today. In fact the reverse occurred as the bond market failed to respond and, under pressure of IMM buying this afternoon, the dollar broke from its recent trading range decisively on the higher side. Only sterling was unaffected by the dollar's strength and with reports of commercial operators who had expected the recovery to be short-lived being forced to cover their needs, the pound made further large gains in Europe. The ERI rose 0.8 to close at 82.8.

Sterling strengthened with the dollar in New York last night to close there at 1.5440. This morning, from an opening level of 1.5425 sterling initially moved lower as some early selling developed out of Europe. The rate touched 1.5393 in mid-morning but then recovered rapidly as a series of large commercial buying orders entered the market. With the dollar steady in other centres, the pound raced up towards 1.55 before some sizeable selling from a UK oil company halted the advance at 1.5490 and by noon the rate was back to 1.5460. News of the cuts in the Bank's dealing rates caused the rate to slip a little further and when New York opened bidding aggressively for dollars, the pound settled around 1.5440 for the afternoon, despite the dollar's gains elsewhere. The rate closed at 1.5430. Three-month Euro-dollars were unchanged at $9\frac{1}{2}\%$ as was the cost of forward cover at $\frac{3}{4}\%$.

The pound made further significant gains in Europe, rising $1\frac{1}{2}\%$ in Germany ($3.75\frac{3}{4}$) and France ($11.26\frac{1}{2}$) and $1\frac{3}{8}\%$ in Switzerland ($3.16\frac{5}{8}$). Having traded around $2.42\frac{1}{2}$ for most of the morning, the deutschemark fell following the entry of New York, closing at its low for the day of 2.4346; later it moved lower, to touch 2.44. There was little change at the bottom of EMS, where the deutschemark continued to require moderate support of \$174mn. equivalent (\$107mn. from France, \$33mn. from Belgium, \$9mn. from Denmark, \$7mn. from Ireland and the balance from Germany itself). The guilder (2.7427) finished narrowly ahead of the deutschemark after support of \$64mn. equivalent (\$15mn. from Denmark, \$6mn. from France and the balance from the Netherlands). The French franc remained close to the top of the band, finishing at 7.3010, although at the close the punt was the strongest currency. The Italians bought \$15mn. Both the Swiss franc and the yen were affected today by the strength of the dollar, easing to 2.0520 and 238.20 respectively.

Gold was a very dull market. Fixings were at \$428.75 and \$429.25.

Operations:	Market	+	\$33mn.
	Sundries	+	8
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		+	\$41mn.
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13th April 1983.

TRS

US BOND AND MONEY MARKETS

Wednesday, 13th April 1983

Federal Funds

Opening: 8 $\frac{3}{8}$ %
Range: 5% - 8 $\frac{5}{8}$ %
Close: 8%

US Governments

(NY close)

2-year: 100 $\frac{1}{8}$ (-) 9 9/16%
5-year: 99 $\frac{1}{2}$ (-) 10%
10-year: 103 (+ $\frac{1}{4}$) 10 $\frac{3}{8}$ %
30-year: 99 $\frac{3}{8}$ (+ $\frac{1}{8}$) 10 $\frac{1}{2}$ %

Euro-dollars

(Today's London opening-
middle rates)

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

Federal Reserve Operations

Bought \$375mn. Treasury Bills for
customers.

3-month Treasury Bills 8 $\frac{1}{4}$ %
3-month US bank CDs 8 9/16%
Differential 7/16%

Indicators

Comment:

In quiet conditions, the market traded in a narrow range
throughout the day.

14th April 1983.

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