

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 14th April 1983

Following the publication of an opinion poll showing a reduction in the Government's lead and with the market at one stage fearing a 1% cut in base rates, sterling settled back a little today and consolidated its recent gains. In the event, the $\frac{1}{2}$ % cut by the clearing banks was fully discounted and the 0.4 fall in sterling's ERI, to 82.4, was largely a reflection of the strength of the dollar. In Europe, the pressure on the deutschemark intensified in EMS and sizeable support was necessary.

The pound fell back with the other European currencies as the dollar strengthened in New York last night, closing there at 1.5385. This morning the rate opened at 1.5358 and, having touched 1.5360, began to weaken in the face of heavy selling from South Africa. With some dealers anticipating a 1% cut in base rates and the dollar strengthening elsewhere as Euro-dollar rates briefly moved higher, the pound fell to 1.5305 in mid-morning before turning. With rumours in the market that President Reagan had died, the dollar then began to ease and sterling recovered to reach 1.5360 at best just before NatWest announced their $\frac{1}{2}$ % reduction. Although sterling again moved a little lower on this news, it thereafter remained around 1.5340 despite the dollar's recovery in other centres. Sterling closed at 1.5327. Three-month Euro-dollars again closed at $9\frac{1}{4}$ % and the cost of cover remained at $\frac{3}{4}$ %.

Sterling was a little lower today in Europe, closing $\frac{3}{8}$ % down in Germany (3.74 $\frac{1}{2}$) and France (11.22 $\frac{3}{8}$) and $\frac{5}{8}$ % off in Switzerland (3.14 $\frac{3}{4}$). The deutschemark lost another $\frac{3}{8}$ % over the day to close at 2.4432 but the scale of support necessary in EMS increased and by the London close it was 2 $\frac{3}{8}$ % below the strongest currency (the punt). Of the \$52lmn. equivalent provided today for the deutschemark, \$239mn. came from France, \$117mn. from Belgium, \$13mn. from Denmark, \$2mn. from Ireland and the balance from Germany itself. By contrast, assistance for the guilder (2.7532) today only amounted to \$31mn., all of which came from the Nederlandsche Bank. The French franc remained close to the top of the band, closing at 7.3230. The Italians bought \$15lmn. and the Norwegians \$80mn. The Swiss franc was steady at 2.0532 but the yen eased to 238.82.

Gold strengthened in the Far East this morning and held its gains in London today, fixing at \$436.25 and \$435.50.

Operations:	Market	+	\$28mn.
	BIS	+	9
	Government	-	32
	Sundries	+	2
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		+	\$7mn.
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14th April 1983.

TRS

US BOND AND MONEY MARKETS

Thursday, 14th April 1983

Federal Funds

Opening: $8\frac{1}{2}\%$
Range: $8\frac{1}{2}\%$ - $8\frac{3}{4}\%$
Close: $8\frac{5}{8}\%$

US Governments

(NY close)

2-year: $100\frac{1}{4}$ ($+\frac{1}{8}$) $9\frac{1}{2}\%$
5-year: $99\frac{1}{4}$ ($+\frac{1}{4}$) $9\frac{7}{8}\%$
10-year: $103\frac{3}{4}$ ($+\frac{3}{4}$) $10\frac{1}{4}\%$
30-year: $100\frac{1}{4}$ ($+\frac{7}{8}$) $10\frac{3}{8}\%$

Euro-dollars

(Today's London opening-
middle rates)

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

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

Indicators

Federal Reserve Operations

Bought \$300mn. Treasury Bills for
customers.

Comment:

After a quiet morning, the market moved up sharply during the afternoon, after the long bond contract on the futures market broke through its all-time high, but closed slightly off its high.

15th April 1983.

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