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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 15th April 1983

A strong rally in the US bond market last night brought the dollar lower by the London opening today but by the close it had recovered most of its losses following a much larger rise in industrial production in March (+1.1%) than the market had been expecting. Sterling saw two-way activity but not on the scale of earlier in the week; the ERI ended 0.5 up at 82.9.

The pound moved up in New York last night with the other currencies as the dollar weakened, closing there at the high of 1.5465. This morning the rate opened at 1.5425 and rose strongly to 1.5462 in the first hour of trading on the back of some good demand from South Africa. However, as this buying eased off and the banks concerned began to take some profit, the rate slipped back in an essentially quiet and rather thin market, to touch 1.5405 at the low, and the pound was at 1.5417 at noon. Although the publication of the US industrial production index caused the dollar to strengthen for much of the afternoon, sterling enjoyed some good demand from the IMM, reaching 1.5455 before closing at 1.5430. Three-month Euro-dollars were 1/16% easier at 9 3/16% and the cost of cover widened to 1%.

The pound made good yesterday's losses in Europe, rising 1/2% in Germany (3.76 1/2), 5/8% in France (11.29) and 1/4% in Switzerland (3.15 3/4). Pressure on the deutschemark eased a little today but it was below its best levels by the close at 2.4395. However, it improved sufficiently to leave the guilder (2.7505) at the bottom of EMS, with the Danish crown (8.66) at the top. Support for the deutschemark amounted to only \$201mn. (of which \$89mn. was in France, \$82mn. in Italy, \$21mn. in Belgium, \$7mn. in Ireland and \$2mn. from Germany) while the guilder received \$28mn., of which \$2mn. was from Denmark and the balance from the Netherlands. The French franc closed at 7.3162. The Swiss franc improved to 2.0470 and the yen to 237.84.

Gold was steady, fixing at \$435.75 and \$436.50.

Operations:	Market	+	\$17mn.
	Iran	+	5
	Government	-	8
	Sundries	+	3
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		+	\$17mn.
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15th April 1983.

TRS

US BOND AND MONEY MARKETS

Friday, 15th April 1983

Federal Funds

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

US Governments

(NY close)

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

Euro-dollars

(Today's London opening-
middle rates)

7-day: 8 15/16%
1-month: 9 1/16%
3-months: 9 $\frac{1}{8}$ %
6-months: 9 3/16%

3-month Treasury Bills 8 $\frac{1}{8}$ %
3-month US bank CDs 8 $\frac{1}{2}$ %
Differential $\frac{3}{8}$ %

Indicators

US producer prices -0.1% (after +0.1% in February)
US industrial production +1.1% (after +0.3% in February)
M1 +\$2.2bn.
M2 +\$18.8bn.
M3 +\$16.0bn.

Comment:

After an unchanged opening, the higher-than-expected industrial production figure caused the market to move lower during the morning, before regaining most of the lost ground during a quiet afternoon.

18th April 1983.

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