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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 18th April 1983

The increases in US money supply announced on Friday evening (M1 +\$2.2bn. and M2 +\$18.8bn.) were fully discounted but failed to produce any follow through in the bond market or be reflected in significantly lower US interest rates today. Short dollar positions, particularly against European currencies, were accordingly hastily covered and the dollar soared in some Continental centres today. Further speculation in the weekend press about the likelihood of a June general election, together with OPEC's confidence at its London conference that the current level of oil prices would hold, helped sterling to new recent highs. The ERI gained 0.9 to 83.8, its highest level since the first days of January.

After a quiet close in New York on Friday at 1.5465, sterling met some good demand in the Far East this morning to open in London almost a cent higher at 1.5550. Having touched 1.5546 in early business the rate traded actively around 1.55½ for most of the morning, reaching 1.5585 at best. Strong demand was at times seen from a large European professional and with the dollar tending to move higher elsewhere in Europe, the pound was gaining ground steadily against the Continental currencies at this time. Following the entry of New York, who bid aggressively for dollars, this movement became even more pronounced as sterling remained firm while the deutschemark, in particular, weakened rapidly. The pound closed at 1.5560 but was later quoted up to 1.5630. Three-month Euro-dollars closed 1/16% lower at 9½% and the cost of forward cover remained at 1%.

Sterling made large strides in Europe, rising 1½% in Germany (3.82) and France (11.45½) and 1½% in Switzerland (3.19½). After holding around its Friday New York closing level of 2.4375 for most of the morning, the deutschemark dropped sharply in the afternoon, to close at 2.4547 (and it was later quoted at 2.46). The deutschemark replaced the guilder (2.7650) at the bottom of EMS, where the punt was the strongest currency, after support of \$262mn. equivalent (\$69mn. from Italy, \$22mn. from Denmark, \$13mn. from France, \$12mn. from Belgium and the balance from Germany itself). The Dutch provided \$14mn. equivalent for the guilder. The French franc set a new all-time low of 7.3695 before closing at 7.3615. The Swiss franc eased to 2.0525 but the yen held steady at 237.70.

Gold rallied in the Far East this morning but moved little in London today. Both fixings were at \$443.

Operations:	Market	+	\$52mn.
	Iran	+	20
	Interest	+	5
	IDA	+	5
	Bangladesh	-	9
	Sundries	+	1
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		+	\$74mn.
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	Overnight	+	\$8mn.
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18th April 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 18th April 1983

Federal Funds

Opening: 8½%  
Range: 8½% - 8¾%  
Close: 8¾%

US Governments

(NY close)

2-year: 100¼ (-) 9½%  
5-year: 99¾ (-) 10%  
10-year: 103¾ (-) 10¼%  
30-year: 100¾ (+¼) 10¾%

Euro-dollars

(Today's London opening-  
middle rates)

7-day: 9%  
1-month: 9%  
3-months: 9½%  
6-months: 9 3/16%

Federal Reserve Operations

Bought \$200mn. Treasury Bills for  
customers.

3-month Treasury Bills 8¾%  
3-month US bank CDs 8 9/16%  
Differential 7/16%

Indicators

Housing starts -10% (after +4% in February)  
Capacity utilisation 69.4 (after 68.7 in February)

Comment:

After trading quietly through the morning, the market moved up following the housing starts announcement (despite the figure being in line with expectations), but subsequently drifted to close little changed on the day.

19th April 1983.

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