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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 19th April 1983

An early attempt by the dollar to continue its recent upward path was restrained today by some resolute support for the deutschemark by the Bundesbank and the dollar quickly settled back around yesterday's levels. Sterling, too, was in heavy demand in the first part of the day, as dealers reacted positively to Lawson's forecast that the current level of oil prices would hold until the end of the year, but the speed of the rise encouraged profit-taking. The ERI ended unchanged at 83.8, after 84.5 at the opening.

Demand for sterling in New York last night carried the rate up to 1.5640 at the close although the dollar remained firm against the other major currencies. This morning the rate opened at 1.5660 and moved swiftly to 1.5690 (a three-month high) on some early oil company demand. However, the more elevated levels soon attracted substantial profit-taking from Swiss and German banks and the pound fell back to 1.5605 in mid-morning, with the dollar then easing elsewhere as the Bundesbank assisted the deutschemark. As the effects of sales of sterling by a large commercial operator, who was looking to cover his commitments against deutschemarks, began to impact on the market, sterling slipped further over the lunch period and throughout the first half of the afternoon, touching 1.5535 at the low before closing, as yesterday, at 1.5560. Three-month Euro-dollars were 1/16% firmer at 9 3/16% and the cost of forward cover remained at 1%.

Early gains of over 1% in Europe, when the deutschemark/sterling rate was over 3.85, were lost by the end of the day and the pound closed more or less unchanged in Continental centres, at 3.81½ in Frankfurt, 11.44% in Paris and 3.21 in Zurich. The deutschemark fell to 2.46 in early trading this morning but quickly improved with the Bundesbank's assistance to close a little better than yesterday, at 2.4532. Support for the deutschemark totalled \$268mn. (\$130mn. from Germany, \$61mn. from Italy, \$58mn. from Belgium, \$12mn. from Denmark, \$6mn. from Ireland and \$1mn. from France) and it left the guilder (2.7635) as the weakest currency in the band, 2½% below the punt at the top (the Irish bought \$1mn. worth of guilders). In addition to their purchases of deutschemarks, the Italians bought \$83mn. The French franc opened this morning at another all-time low of 7.3765 but improved to 7.3575 by the close. The Swiss franc was rather weaker at 2.0634 but the yen was little changed at 237.96.

Gold drifted lower in quiet trading. Fixings were at \$441.50 and \$439.50.

Operations:	Market	+	\$28mn.
	Sundries	+	7
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		+	\$35mn.
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19th April 1983.

TRS

US BOND AND MONEY MARKETS

Tuesday, 19th April 1983

Federal Funds

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

US Governments

(NY close)

2-year: 100 $(-\frac{1}{4})$ $9\frac{5}{8}\%$
5-year: $99\frac{1}{4}$ $(-\frac{3}{8})$ $10\frac{1}{16}\%$
10-year: $102\frac{7}{8}$ $(-\frac{1}{4})$ $10\frac{3}{8}\%$
30-year: $99\frac{1}{8}$ $(-1\frac{1}{4})$ $10\frac{1}{2}\%$

Euro-dollars

(Today's London opening-
middle rates)

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

Federal Reserve Operations

\$1bn. customer repurchase agreement
with Fed Funds at $8\frac{3}{4}\%$. Stop rate
 8.78% .

3-month Treasury Bills $8\frac{3}{16}\%$
3-month US bank CDs $8\frac{5}{8}\%$
Differential $7/16\%$

Indicators

US personal incomes $+0.6\%$ (after $+0.1\%$ in February)

Comment:

The market moved lower through the day on the firm Funds rate and the absence of a coupon pass.

20th April 1983.

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