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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 21st February 1983

Oil was the cause of troubled waters for sterling this morning as the market assessed the prospects for a price war of attrition. There were small offerings in the Far East at first but conditions were generally quietened by the Washington Birthday holiday in the USA. This afternoon saw another bout of offering and, right on the close, a much larger, single order to sell. The ERI fell to a new low of 80.2.

On Friday evening in New York there was little movement, the pound ending the week at 1.5445. The rate opened in London today at 1.5415 and rose a point but the early selling, encouraged by rumours that the Saudis might offer a cut of \$7½ a barrel, forced it down to 1.5348. Having breached 1.54 again it had settled at 1.5390 at noon. In the second session it became apparent that a number of banks had decided to square their small long positions - or even take up modest shortones. As a result, the rate fell to 1.5370 at the close and this was coincident with the arrival of a bank seller of £35mn., apparently for investment account; business was then seen down to 1.5325. Three months Eurodollars and the cost of forward cover were little changed.

In Europe the pound's decline was sharper and it lost about ½% against the deutschemark (3.67½) and French franc (10.42½) but matched its fall of ¾%, against the dollar, in Switzerland (3.06½). Affected by the performance of the US bond market last Friday, the dollar moved lower again at the opening but had reduced its losses by about one half by the close. The deutschemark, quoted at 2.3855 at best this morning, closed at 2.3934 - a gain of some ¼% - and usurped the top position in EMS, which closed fully stretched. The Belgian franc (47.17) remained lowest, having received \$9mn. of support in deutschemarks. The French were also sellers of deutschemarks, equivalent to \$58mn.; their franc rallied to 6.7830 but remained steady on the crossrate with the deutschemark. The Swiss franc rose to 1.9925 and the yen to 232.72.

Gold turned dull. Fixings were at \$503.75 and \$504.50.

Operations:	Market	- \$8mn.
	Interest	+ 19
	IDA	+ 18
	Iran	+ 13
	Sundries	- 4
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		+\$38mn.
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21st February 1983.

DAHB
DAHZ

US BOND AND MONEY MARKETS

MONDAY, 21ST FEBRUARY 1983

Federal Funds

Opening:
Range:
Close:

US Governments

(NY close)

2-year:
5-year:
10-year:
30-year:

Euro-dollars

(Today's London opening-
middle rates)

7-day: 8 15/16%
1-month: 8 15/16%
3-months: 9 1/16%
6-months: 9 1/4%

Federal Reserve Operations

3-month Treasury Bills 8 5/16%
3-month US bank CDs 8 9/16%
Differential 1/4%

Indicators

Comment:

Market closed for Washington's Birthday.

22nd February 1983.
TRS