

2/2 4 A-2

SECRET

79.7

81.5750 - 1.52

80.0

1.57 3/4

<80.0>79.9

THE DEPUTY GOVERNOR

2.12 1/2 m
2.35 1/2 ym
2.03 1/2 sf

FOREIGN EXCHANGE AND GOLD MARKETS

Jan 3.66

Tuesday, 22nd February 1983

3.68

The implications of lower oil prices both for the UK and other producers continued to dominate a volatile day's trading on the exchanges today. With the Gulf producers reported to be discussing a cut of between \$5.50 and \$7 a barrel and news that North Sea oil was trading on the spot market at some \$3 below the proposed new price sterling was again a weak and nervous market. At the same time, concerns about the effect of lower prices on the debt problems of some of the South American producers revived signs of the flight to quality syndrome and the dollar strengthened generally. Sterling's ERI closed down 0.4 at a new low of 79.7.

Sterling opened at 1.5330 this morning and immediately began to ease on some early selling out of Europe. The rate settled to trade quite actively for much of the first part of the morning around 1.53 but the tone was distinctly nervous and it failed to respond to some heavy professional buying demand from Eastern Europe. When a UK oil company began selling sterling in mid-morning, this unsettled the market further and the rate dipped towards 1.52 1/2 at this time, although the dollar was then easing elsewhere. The US were active buyers of the dollar and with the IMM aggressively selling Swiss francs, in particular, the dollar strengthened sharply during the afternoon. Sterling, too, came under pressure at this time, principally against the deutschemark, and the rate traded uneasily lower throughout the latter part of the day, ending at 1.5207, two points above the day's low. Later, as the dollar strengthened further, the pound was traded down to 1.5175. Three-month Eurodollars were 1/16% easier at 9% and the cost of forward cover widened to 2 3/8%.

The pound's decline in Europe continued and it closed 1/2% lower in Germany at 3.65 7/8 and France at 10.37 5/8, although it was unchanged in Switzerland at 3.06 3/8. EMS narrowed to 2% between the Belgian franc (47.32) and the guilder (2.6587). The French sold deutschemarks worth \$43mn., the Italians sold \$38mn. and the Irish \$22mn. The yen fell to 233.75.

After the recent period of stability, gold broke out decisively on the down side. Having fixed at \$503.25 in the morning, the selling, initially triggered by the fall in oil prices, pushed the price down through £500 before the afternoon fix. This in turn sparked off further stop loss selling and the price fell rapidly in the afternoon fix to \$485.50.

Operations:	Market	-	\$27mn.
	Sundries	+	1
		-	\$26mn.
			<hr/> <hr/>
	Overnight	-	\$8mn.
			<hr/> <hr/>

22nd February 1983
TRS

US BOND AND MONEY MARKETS

Tuesday, 22nd February 1983

Federal Funds

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

US Governments

(NY close)

2-year: $100\frac{3}{8}$ ($+\frac{1}{4}$) 9 7/16%
5-year: $100\frac{1}{2}$ ($+\frac{3}{8}$) 9 13/16%
10-year: $102\frac{7}{8}$ (+1) 10 3/8%
30-year: $98\frac{1}{4}$ ($+1\frac{3}{8}$) 10 9/16%

Euro-dollars

(Today's London opening-
middle rates)

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

Federal Reserve Operations

\$2bn. customer repurchase
agreements with Fed. Funds at $8\frac{1}{4}$.
Stop rate 8% .

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

Indicators

Comment:

The market opened firm and moved ahead, helped by the Funds rate and reasonable retail buying interest. The Fed. activity was regarded as very positive and the market improved further during the afternoon, ending close to its high.

23rd February 1983.
TRS