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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 7th April 1983

Sterling's recent resurgence has led to increasing discussion about the possibilities for a cut in base rates. These became more hopeful today, in spite of the Bank's failure to meet the expected shortage in the money market, and sterling eased back to its levels at noon on Tuesday. The ERI fell to 80.6. The deutschemark continued to require support.

In New York last night the pound was little changed at 1.5150. It opened at 1.5135 in London this morning and was quoted between 1.5141 and 1.5065 before closing at 1.5068. Although it was clear that the Bank had underlent, the softer tendency was arrested only for a few moments. Sterling appears to have been marked, rather than sold, down as turnover was only light. Euro-dollars shed another $\frac{1}{8}\%$ to $9\frac{3}{8}\%$ and the cost of forward cover rose again, to $\frac{3}{4}\%$.

The pound slipped to 3.64 $\frac{1}{8}$ in Germany, 10.91 $\frac{1}{2}$ in France and 3.08 $\frac{3}{4}$ in Switzerland. The dollar had a steady day, recording a slight improvement everywhere else. Nevertheless, \$228mn. was spent in defence of the deutschemark: \$66mn. in Belgium, \$100mn. in France, \$36mn. in Denmark and \$26mn. in Germany (\$22mn. in French francs, \$4mn. in kroner). It closed at 2.4164. At Europe's close the EMS lay between the Germans and Danes but at London's close the florin had slipped beyond the 2 $\frac{1}{4}\%$ band to close at 2.7235, the krone being 8.5737. The French franc eased from a strong opening of 7.2235 to 7.2437. The Italians recouped another \$175mn. The Swiss franc closed at 2.0495, the yen at 238.05.

Gold continues to lack good investment demand and traded quietly. Fixings were at \$426.50 and \$425.75.

Operations:	Market	+	\$2mn.
	IDA	+	11
	Zimbabwe	+	8
	Sundries	+	5
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		+	\$26mn.
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DAHB

DAHB

US BOND AND MONEY MARKETS

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Federal Funds

Opening: $8\frac{7}{8}\%$
Range: $8\frac{7}{8}\% - 9\%$
Close: 9%

US Governments

(NY close)

2-year: $99\frac{7}{8}$ ($-\frac{1}{8}$) $9\frac{11}{16}\%$
5-year: 99 ($-\frac{1}{8}$) $10\frac{1}{8}\%$
10-year: $102\frac{1}{4}$ ($-\frac{1}{4}$) $10\frac{1}{2}\%$
30-year: $98\frac{3}{8}$ ($-\frac{3}{8}$) $10\frac{9}{16}\%$

Euro-dollars

(Today's London opening-
middle rates)

7-day: $9\frac{3}{8}\%$
1-month: $9\frac{3}{8}\%$
3-months: $9\frac{1}{2}\%$
6-months: $9\frac{9}{16}\%$

Federal Reserve Operations

\$1.5bn. customer repurchase
agreement with Fed Funds at
 $8\frac{7}{8}\%$. Stop rate 8.83% .

Bought \$320mn. Treasury Bills
for customers

3-month Treasury Bills $8\frac{7}{16}\%$
3-month US bank CDs $8\frac{13}{16}\%$
Differential $\frac{3}{8}\%$

Indicators

Comment:

The market drifted lower in very quiet conditions.

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