

FE 2/2 4 Pt 2

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 27th April 1983

Some easing in the Fed Funds rate and a better tone in the US bond market yesterday were reflected in New York in a temporary weakening of the dollar but, in rather thin trading, it fairly quickly regained its firmer levels in Europe today. Sterling was a less active market than on most days recently and much of the business took the form of commercial selling. The ERI closed 0.4 lower at 84.2.

Some selling of sterling developed in New York last night and, although the dollar was otherwise generally weaker, sterling closed quite well down from London at 1.5685. This morning the rate opened at 1.57 and having touched 1.5720 fell back below the opening level as yesterday's buyer of sterling against deutschmarks from East Europe took profits and the commercial operator from France resumed his selling programme. With some official European sales also in the market at this time the rate dipped to 1.5657 in mid-morning but recovered to 1.5690 shortly after noon. As New York today bid for dollars, sterling slipped back throughout the afternoon, losing ground against the Continental currencies as well, to touch 1.5635 at the low, before closing at 1.5647. Three-month Euro-dollars remained at 9 1/16% and the cost of cover at 1%.

The pound was weaker in Europe, closing 1/2% down in Germany (3.83 7/8) and France (11.50 1/4) and 5/8% lower in Switzerland (3.21 3/4). The dollar closed unchanged in Frankfurt at 2.4531 but there was heavy support for the deutschmark, totalling \$472mn. of which \$269mn. came from France, \$44mn. from Belgium, \$2mn. from Ireland and the balance from Germany itself. The guilder (2.7651) sank to the bottom of EMS, 2 5/16% from the French franc (7.3550) after support of \$110mn. (\$42mn. from Ireland and the remainder from the Netherlands). In addition, the French bought \$19mn. and the Italians \$72mn. The Swiss franc closed at 2.0567 and the yen at 236.92.

Gold was an active market and some sizeable selling was seen at times during the day. Fixings were at \$436.50 and \$434.25.

Operations:	Market	+	\$11mn.
	Interest	+	7
			<hr/>
		+	\$18mn.
			<hr/> <hr/>

27th April 1983.

TRS

US BOND AND MONEY MARKETS

Wednesday, 27th April 1983

Federal Funds

Opening: 8 $\frac{5}{8}$ %  
Range: 8 $\frac{5}{8}$ % - 10 $\frac{1}{2}$ %  
Close: 10 $\frac{1}{2}$ %

US Governments

(NY close)

2-year: 100 $\frac{1}{8}$  (+ $\frac{1}{8}$ ) 9 13/16%  
5-year: 99 $\frac{5}{8}$  (+ $\frac{1}{8}$ ) 9 15/16%  
10-year: 103 $\frac{3}{8}$  (+ $\frac{3}{8}$ ) 10 5/16%  
30-year: 99 $\frac{1}{2}$  (+ $\frac{3}{8}$ ) 10 7/16%

Euro-dollars

(Today's London opening-  
middle rates)

7-day: 8 $\frac{7}{8}$ %  
1-month: 8 15/16%  
3-months: 9%  
6-months: 9 $\frac{1}{8}$ %

Federal Reserve Operations

Overnight repurchase agreements  
for system account with Fed Funds  
@ 8 $\frac{5}{8}$ %. Stop rate 8.20%.

Bought \$430mn. Treasury Bills for  
a customer.

3-month Treasury Bills 8 3/16%

3-month US bank CDs 8 5/16%

Differential  $\frac{1}{8}$ %

Indicators

US Treasury financing package was announced.

<u>Amount</u>	<u>Maturity</u>	<u>Auction date</u>
\$6.5bn.	3 years	May 3rd
\$4.75bn.	10 years	May 4th
\$3.75bn.	30 years	May 5th

Comment:

The most active and volatile day for some while. After a firm opening, the market jumped up in response to the unexpected system repos (the Fed's first intervention for its own account for six weeks). The high prices attracted profit-taking, as did the size of the refunding package (some \$2bn. over Street estimates) and gains were trimmed by the close.

28th April 1983.

TRS