

FE 2/2 A P12

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 29th April 1983

A speech overnight from Mr. Volcker, implying that there might be a role for the US in curbing the strength of the dollar, counterbalanced Feldstein's remarks of the previous day and held the dollar in check in very quiet trading. Sterling remained in a narrow range, with the trade figures released just before the close having little noticeable impact. The ERI closed unchanged at 84.2.

Sterling closed at 1.5620 in New York last night against an easier dollar and opened at the day's low of 1.5598 this morning. Trading activity was very light throughout the day and the pound did not thereafter move above 1.5645 at the high before closing at 1.5620. Three-month Euro-dollars eased 1/16% to 8 15/16% and the cost of cover widened to 1 1/8%.

The pound was marginally lower in Europe, closing at 3.84 1/2 in Germany, 11.52 1/2 in France and 3.22 in Switzerland. The dollar ended about 1/4% lower in these centres, closing at 2.4592 in Frankfurt, after support for the deutschemark totalling \$102mn. (\$57mn. from France, \$41mn. from Belgium and \$4mn. from Ireland). The deutschemark remained at the bottom of EMS, 2 1/2% below the punt, which replaced the French franc (7.3760) as the strongest currency. The Swiss franc closed at 2.0615 and the yen at 237.47.

Gold again traded in a narrow range, fixing at \$428.50 and \$429.25.

Operations:	Market	+	\$9mn.
	Sundries	+	1
			<u> </u>
		+	\$10mn.
			<u> </u>
	Bank Holiday	+	\$38mn.
			<u> </u>

The result for April is a rise in reserves of \$319mn. to a level of \$17,656mn. after net new public sector borrowing of \$8mn. The renewal of the ECU swap caused a rise of \$145mn. in the value of the spot reserves and an equivalent fall in the overbought forward book which was reduced overall by \$104mn. to an overbought forward position of \$437mn.

29th April 1983.

TRS

US BOND AND MONEY MARKETS

Friday, 29th April 1983 and

Monday, 2nd May 1983

Federal Funds

	<u>Friday</u>	<u>Monday</u>
Opening:	8 $\frac{7}{8}$ %	8 $\frac{5}{8}$ %
Range:	8 $\frac{5}{8}$ %-8 $\frac{7}{8}$ %	8 $\frac{5}{8}$ %-8 $\frac{3}{4}$ %
Close:	8 $\frac{5}{8}$ %	8 $\frac{3}{4}$ %

US Governments

	(NY close)	<u>Monday</u>
2-year:	100 $\frac{3}{8}$ (+ $\frac{1}{8}$)	9 5/16%
5-year:	100 (+ $\frac{1}{8}$)	9 $\frac{7}{8}$ %
10-year:	103 $\frac{3}{4}$ (+ $\frac{1}{8}$)	10 $\frac{1}{4}$ %
30-year:	99 $\frac{7}{8}$ (-)	10 $\frac{3}{8}$ %

Euro-dollars

(Today's London opening-middle rates)

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

Federal Reserve Operations

Friday. Weekend repurchase agreement for system account with Fed Funds at 8 $\frac{3}{4}$ %. Stop rate 8.39%. Also bought \$400mn. Treasury Bills for customers.

Monday. \$1bn. customer repurchase agreement with Fed Funds at 8 $\frac{5}{8}$ %. Stop rate 8.60%.

3-month Treasury Bills	8 $\frac{1}{8}$ %
3-month US bank CDs	8 5/16%
Differential	3/16%

Indicators

Leading indicators +1.5% (after +1.4% in February)
Trade balance -\$3.6bn. (after -\$3.6bn. in February)
M1 -\$2bn.

Comment:

After trading narrowly throughout the day on Friday, the market jumped by $\frac{3}{8}$ following the M1 announcement. On Monday, after an initial improvement, prices began to decline and the market closed with losses of around $\frac{1}{4}$.

3rd May 1983.

OP OP