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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 22nd January 1982

Against the background of yesterday's concerted interest rate cuts in Europe and the Bank's steady reduction in bill dealing rates, today's $\frac{1}{2}\%$ cut in clearing banks' base rates was widely expected. Nevertheless, sterling was a little softer at times and with the dollar very firm, following Fed action to tighten domestic liquidity, the pound looked a little vulnerable. The ERI fell 0.5 to 90.9.

Late intervention by the Fed to drain reserves from the system ended a promising rally in the US bond market yesterday and the dollar firmed sharply in New York. Sterling fell more than the other major currencies, losing $1\frac{1}{2}$ cents to close at 1.8720. This morning sterling opened at 1.8752 and after touching 1.8797 in early business started to give ground in a fairly active two-way market. The announcement by NatWest of the $\frac{1}{2}\%$ cut in their base rate caused further pressure, mainly from European professionals, and the rate fell to 1.8677 before recovering to 1.87 at noon. Trading during the afternoon was rather light but some modest European demand, perhaps for investment account, together with some buying by an oil company, helped the rate to reach 1.8755 shortly before closing at 1.8740. Three-month Euro-dollars were $1/16\%$ firmer at $14\frac{5}{8}\%$, $\frac{1}{8}\%$ above sterling inter-bank rates. Forward sterling accordingly moved to a premium, of $\frac{3}{8}\%$, and the covered differential in favour of London was $\frac{1}{4}\%$.

The pound was weaker in Europe, losing $\frac{1}{2}\%$ in Germany (4.31 $\frac{1}{4}$) and France (10.98 $\frac{3}{4}$) and $\frac{3}{8}\%$ in Switzerland (3.46 $\frac{1}{2}$). The dollar was similarly firmer in Frankfurt (2.3037) and Paris (5.8635) but was little different in Zurich (1.8492). EMS was unchanged: the band was $1\frac{3}{8}\%$ wide between the Belgian franc (39.19) and the guilder (2.5250). The Italians sold \$92mn., the Irish \$17mn. and the Germans and Danes \$5mn. each. The yen lost further ground, closing at 227.10.

Gold was a quiet market. Fixings were at \$377.75 and \$377.25.

Operations:	Market	+	\$16mn.
	Iran	+	13
	IDA	+	8
	Sundries	+	5
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		+	\$42mn.
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22nd January 1982.

TRS

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US BOND AND MONEY MARKETS

Friday, 22nd January 1982

Federal Funds

Opening: 13 $\frac{3}{4}$ %
Range: 13 $\frac{1}{2}$ % - 13 $\frac{3}{4}$ %
Close: 13 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{5}{8}$ (- $\frac{1}{2}$) 15 $\frac{1}{4}$ %
5-year: 92 $\frac{5}{8}$ (- $\frac{7}{8}$) 14 $\frac{7}{8}$ %
10-year: 97 $\frac{1}{4}$ (- $\frac{7}{8}$) 14 $\frac{3}{4}$ %
30-year: 97 $\frac{1}{2}$ (-1 $\frac{1}{4}$) 14 $\frac{3}{8}$ %

Euro-dollars (Today's opening
London bid)

7-day: 14 1/16%
1-month: 14 $\frac{5}{8}$ %
3-months: 15 $\frac{1}{2}$ %
6-months: 15 13/16%

Federal Reserve Operations:

Purchase of \$300 Treasury Bills
for customer account.

Indicators

Consumer price index for December +0.4% (+8.9% over
December 1980).

Comment:

The market opened cautiously lower, with Fed Funds at 13 $\frac{3}{4}$ % and the CPI exactly in line with expectations at 0.4%. In typically quiet Friday trading the market drifted lower as apprehensions grew that the expected decline in money supply might not match earlier expectations. The increase in M1, together with the upward revision to the previous week's figure, was totally unexpected and the market dropped abruptly to close at the low for the day.

25th January 1982.

TRS