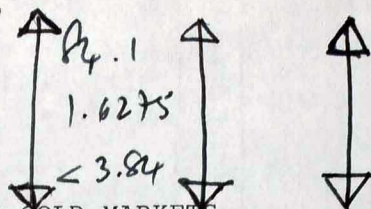


SECRET



2/2 4

THE DEPUTY GOVERNOR



FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 31st December 1982

The year ended quietly. The dollar strengthened slightly as the costs of short-term financing rose. Press talk of lower oil prices gave sterling a soft tone from the start and a large commercial selling order also weighed heavily on the market for much of the day. From an opening level of 83.9 the ERI recovered to close the day unchanged at 84.3 (7½% down from the level of 90.9 a year ago).

Sterling closed at 1.6215 in New York last night. This morning the rate opened at 1.6235 but was immediately marked down as concern over the oil price made sentiment generally bearish. When a large order to sell sterling came into a quiet and unenthusiastic market, the rate began to give ground quite quickly, falling to 1.61 in mid-morning against a dollar which was unchanged elsewhere. By early afternoon, however, when the commercial order was completed and the dollar was strengthening generally, helped by a 14% Fed Funds rate, sterling began to recover and the rate rose for the balance of the day, to close at 1.6175, a fall of 15½% from last year's 1.9110. Three-month Euro-dollars were unchanged at 9½% - they were 13½% this time last year - and sterling's forward discount was 1½%.

The pound was marginally easier in Germany (3.85) and France (10.91) but gained ½% in Switzerland (3.25½). Over the past year it has fallen by 10½% against the deutschemark (which was then 4.29), 5% against the Swiss franc (then 3.43½) but remained virtually unchanged against the French franc (then 10.92). The dollar strengthened to 2.3805 against the deutschemark (6% up on last year's 2.2447), 2.0130 against the Swiss franc (12% better than last year's 1.7960) and 6.7450 against the French franc (a rise of 18% from last year's 5.7150). In EMS, the French franc remained at the top, 2 3/16% above the Belgian franc (46.92) - which took bottom place for the fourth consecutive December. The Belgians sold a cocktail of currencies worth \$16mn., the Italians sold \$20mn., the Irish \$14mn. and the Germans \$6mn. Elsewhere the Norwegians sold \$49mn. The yen fell ½% to 235.50 (7% below last year's level of 219.55).

Gold was a little easier at the only fixing of the day, \$448, 12% above last year's \$400.

Operations:	Market	-	\$10mn.
	BIS	+	8
	Interest	+	6
			<hr/>
		+	\$4mn.
			<hr/> <hr/>

The result for December is a fall in reserves of \$1,009mn. to a level of \$16,997mn. after net repayments of public sector borrowing and government debt of \$153mn. The overbought forward position fell by \$364mn. to \$224mn.

31st December 1982.

TRS



US BOND AND MONEY MARKETS

Friday, 31st December 1982 and Monday, 3rd January 1983

Federal Funds

	<u>Friday</u>	<u>Monday</u>
Opening:	14%	8 $\frac{1}{8}$ %
Range:	9 $\frac{1}{2}$ % - 14%	8 $\frac{1}{4}$ % - 9 $\frac{3}{4}$ %
Close:	9 $\frac{1}{2}$ %	9 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year:	99 $\frac{1}{2}$	(+ $\frac{1}{8}$ )	9 $\frac{3}{8}$ %
5-year:	100	(+ $\frac{1}{4}$ )	10 $\frac{1}{8}$
10-year:	101	(+ $\frac{1}{2}$ )	10 5/16%
30-year:	99 $\frac{3}{4}$	(+ $\frac{3}{4}$ )	10 $\frac{3}{8}$ %

Euro-dollars (Today's opening  
London bid)

7-day: 9 $\frac{1}{4}$ %  
1-month: 9%  
3-months: 9 1/16%  
6-months: 9 $\frac{1}{4}$ %

Federal Reserve Operations:

System repurchase agreement on  
31st December with Fed Funds at  
12 $\frac{1}{2}$ %. Stop rate 12%.

3-month Treasury Bills 8%

3-month US bank CDs 8 $\frac{1}{2}$ %

Differential  $\frac{1}{2}$ %

Indicators

M1 / -\$2.4bn.

Comment:

On 31st December, the market opened  $\frac{1}{8}$  up, despite the high Funds rate. In thin trading prices rose further, closing with gains of up to  $\frac{1}{2}$ %. On 3rd January the market moved higher early in the morning but thereafter remained little changed until the slightly disappointing M1 announcement in late afternoon moved prices down, and the market closed little changed on the day.

4th January 1983.

OP 28