

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 10th January 1983

In at times quite active trading on the exchanges both sterling and the dollar weakened further. The heavy commercial selling of sterling which began to be seen on Friday gathered force today with widespread sales, particularly during the afternoon. Further speculation about lower oil prices, fuelled by rumours that President Reagan might announce an oil imports tax in his forthcoming State of the Union message, continued to be a major factor in a weak sterling market. The ERI fell 0.9 to another new low of 81.6.

Sterling drifted lower in New York on Friday evening to close there at 1.6010. This morning the pound opened at 1.5975 and, having initially moved down to 1.5965, settled to trade around 1.60 for much of the morning. Some good two-way business was seen at this time, with sizeable professional interest from Switzerland and Germany. At best during the morning the rate reached 1.6029 but with the dollar then losing ground elsewhere, sterling continued to weaken against the Continental currencies and the yen. Sentiment began to deteriorate around lunch-time when a sizeable commercial selling order from Germany was followed by a wave of selling from Eastern Europe, the Middle East and the US. With the dollar then regaining its early losses in Europe and a distinct absence of buyers in the market, sterling fell steadily throughout the afternoon, touching a low of 1.5932 shortly before the close at 1.5936. Later, as the pressure continued with the IMM selling sterling, the rate fell to 1.5880. Three-month Euro-dollars moved $\frac{1}{8}\%$ lower to $8\frac{3}{4}\%$ and sterling's forward discount was $1\frac{1}{4}\%$.

The pound again fell to new recent lows in Europe, closing $1\frac{1}{2}\%$ down in Switzerland ($3.05\frac{3}{4}\%$) and 1% down in Germany ($3.71\frac{1}{2}\%$) and France ($10.52\frac{1}{2}\%$). The dollar fell a further $\frac{1}{8}\%$ in Zurich (1.9187) but was only $\frac{1}{4}\%$ easier in Frankfurt (2.3316) and Paris (6.6065). The weekend safely over, pressures in EMS disappeared and the band narrowed to $2\frac{3}{8}\%$ between the Belgian franc (45.89) at the bottom and the guilder (2.5760) which moved to top place. The French were able to recoup \$221mn. (\$63mn. of which was in deutschemarks) of their support of Friday, having sold a further \$98mn. in New York that evening, and the Dutch bought \$35mn. The Danes sold \$9mn. and the Irish \$4mn. The yen improved $\frac{1}{4}\%$ to 227.10.

Gold was again an active market and the price showed further good gains over the day. Both fixings were at \$474 but the price was later quoted above \$480.

Operations:	Market	-	\$22mn.
	Interest	+	12
	Sundries	+	7
		-	\$3mn.
			=====
	Overnight	-	\$19mn.
			=====

10th January 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 10th January 1983

Federal Funds

Opening: 8½%
Range: 8½% - 8½%
Close: 8½%

US Governments (NY closing bids)

2-year: 100½ (+½) 9½%
5-year: 100½ (+½) 10%
10-year: 100½ (-) 10½%
30-year: 99 (-) 10½%

Euro-dollars (Today's opening London bid)

7-day: 8¼%
1-month: 8 11/16%
3-months: 8¼%
6-months: 8 13/16%

Federal Reserve Operations:

Sold \$500mn. Treasury Bills for a customer.

3-month Treasury Bills 7¼%
3-month US bank CDs 8 3/16%
Differential 7/16%

Indicators

Comment:

The market traded in a narrow range throughout the day.

11th January 1983.

OP 00