

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 13th January 1983

After a nervous start, sentiment towards sterling improved in the latter part of an active day's trading on the exchanges. Some widespread commercial selling during the morning threatened at one stage to take the pound back to the levels seen before Tuesday's increase in base rates but strong professional buying from a large US bank in the afternoon brought a good recovery. The better tone was helped too by the $\frac{1}{2}\%$ cut in Dutch discount and Lombard rates which reinforced expectations of an early move by the Fed and a reduction in German rates at the Bundesbank Council meeting next week. The ERI closed 0.1 lower at 81.3 after 80.8 at noon. Elsewhere, the dollar, which had weakened overnight in New York, closed unchanged from its opening levels.

Sterling remained steady at its London closing level while the dollar fell in New York last night, ending at 1.5785. This morning the rate opened unchanged at 1.5787 and touched 1.58 in early business. Some selling, mainly of a commercial nature, then developed from Europe, principally against the deutschemark, and the rate started to slide, while the dollar too weakened in Europe. Although there was some demand on oil company account and from South Africa, the latter perhaps in cover of sales made earlier in the week, the rate continued to fall throughout the first part of the day, bottoming at 1.57 in mid-morning. With the dollar also recovering at this time, sterling began to rise towards noon and the pace of the advance accelerated over the lunch period with a US bank purchasing a large speculative position. As the rate rose towards 1.57 $\frac{1}{2}$ some widespread covering of outstanding short positions was set in train and the pound reached 1.5837 at best shortly before the close at 1.5825. Three-month Euro-dollars were 1/16% firmer at 8 13/16% and the cost of forward cover narrowed to 2 9/16%.

Sterling gave up some of yesterday's gains in Europe, closing $\frac{1}{8}\%$ lower in Switzerland (3.04 $\frac{1}{2}$) and $\frac{1}{8}\%$ easier in Germany (3.71) and France (10.51 $\frac{1}{8}$). The dollar, too, was about $\frac{1}{2}\%$ down in each of these centres at 1.9242, 2.3445 and 6.6485 respectively. EMS was unchanged, at 2 3/16% between the Belgian franc (46.06) at the bottom and the guilder (2.5845) at the top. The approach of the weekend brought renewed pressure within the band, however, and the French spent \$180mn. equivalent in holding their deutschemark cross-rate while the Belgians sold guilders worth \$82mn., the Dutch bought \$62mn., of which \$12mn. was in Belgian francs, and the Irish sold \$67mn., \$17mn. of which was in deutschemarks. The Italians bought \$80mn. and the Danes \$2mn. The yen improved to 229.27.

Gold strengthened in New York last night and rallied further at first in London today, with good institutional buying from Europe. The price reached \$493 during the morning but slipped back from the best levels as the day progressed. Fixings were at \$491 and \$488.25.

Operations:	Market	-	\$3mn.
	Interest	+	9
	Sundries	+	4
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		+	\$10mn.
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13th January 1983.

TRS

US BOND AND MONEY MARKETS

Thursday, 13th January 1983

Federal Funds

Opening: $8\frac{3}{8}\%$
Range: $8\frac{3}{8}\%$ - $8\frac{1}{2}\%$
Close: $8\frac{1}{2}\%$

US Governments (NY closing bids)

2-year: $100\frac{1}{8}$ (-) $9\frac{1}{8}\%$
5-year: 101 (-) $9\frac{7}{8}\%$
10-year: $101\frac{1}{8}$ ($-\frac{1}{8}$) $10\frac{1}{8}\%$
30-year: $99\frac{1}{2}$ ($-\frac{1}{8}$) $10\frac{7}{16}\%$

Euro-dollars (Today's opening
London bid)

7-day: 9%
1-month: $8\frac{3}{4}\%$
3-months: $8\frac{7}{8}\%$
6-months: $8\frac{15}{16}\%$

Federal Reserve Operations:

\$700mn. customer repurchase
agreement with Fed Funds at $8\frac{3}{8}\%$.
Stop rate 8.50% .

Bought \$350mn. Treasury Bills for
customers.

3-month Treasury Bills $7\frac{11}{16}\%$
3-month US bank CDs $8\frac{3}{16}\%$
Differential $\frac{1}{2}\%$

Indicators

Comment:

After moving ahead for the first hour, the market lost momentum and, despite the Fed unexpectedly adding reserves to the system, the market drifted lower to close little changed.

14th January 1983.

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