

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 17th January 1983

The exchanges opened the week on a calmer note. The absence of a cut in US discount rate on Friday, despite very respectable money supply figures, caused some initial disappointment but, from a firm opening, the dollar had eased back by the close to a little below Friday's levels, helped by a further reduction in the index of capacity utilisation in industry. Sterling was again largely influenced by political considerations. Markets were reassured by the Prime Minister's statements at the weekend and drew further comfort from an opinion poll showing an increase in the Government's lead over the opposition. The ERI closed 0.3 higher at 81.9 after 82.1 at the opening.

Sterling closed quietly in New York on Friday at 1.5815. With some disappointment at the absence of the hoped-for cut in the Fed's discount rate, the dollar was firmer by the start of business in London but sterling opened at 1.5825, which proved to be the low for the day. Early demand from Europe, and perhaps also the unwinding of some remaining short positions, took the rate up to 1.5910 in the first half of the morning. Thereafter, sterling traded fairly narrowly around the 1.59 level for the balance of the day, but with a much firmer tone than on any day in the past week, while the dollar eased back slowly mainly during the afternoon. The pound touched 1.5925 at best shortly before the close at 1.5905. Three-month Euro-dollars were unchanged at 8 $\frac{3}{8}$ % but with sterling interbank rates continuing to ease, the cost of forward cover narrowed to 2 $\frac{1}{8}$ %.

Sterling was firmer in Europe, gaining $\frac{1}{2}$ % in Germany (3.74 $\frac{1}{2}$) and France (10.61 $\frac{1}{4}$) and $\frac{1}{4}$ % in Switzerland (3.06 $\frac{7}{8}$). After a firm opening, the dollar closed a little easier in all these centres at 2.3545, 6.6730 and 1.9287. In EMS, the Irish punt (1.4060) replaced the Belgian franc (46.27) at the bottom of the band, 2 $\frac{3}{16}$ % from the guilder (2.5970). The French bought \$231mn. (of which \$64mn. was in deutschemarks), the Italians \$94mn. and the Danes \$22mn. The yen strengthened $\frac{1}{2}$ % to 229.07.

Gold was again in strong demand, with some good institutional interest from Europe. The price moved up slowly and steadily throughout the day in London but baulked at breaching \$500. Fixings were at \$494.50 and \$498.50, the highest fixing level since May 1981. The price was later quoted down to \$495 in New York.

Operations: Market + \$5mn.

17th January 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 17th January 1983

Federal Funds

Opening: $8\frac{3}{8}\%$
Range: $8\frac{1}{4}\%$ - $8\frac{1}{2}\%$
Close: $8\frac{1}{2}\%$

US Governments (NY closing bids)

2-year: $100\frac{3}{8}$ ($-\frac{1}{8}$) $9\frac{1}{4}\%$
5-year: $101\frac{1}{8}$ (-) $9\frac{13}{16}\%$
10-year: $101\frac{3}{8}$ ($+\frac{1}{8}$) $10\frac{1}{4}\%$
30-year: $98\frac{7}{8}$ (-) $10\frac{1}{2}\%$

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

\$1bn. customer repurchase agreement
with Fed Funds at $8\frac{3}{8}\%$. Stop rate
8.21%.

Bought \$245mn. Treasury Bills for
customers.

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

Indicators

Capacity Utilisation 67.3% (against 67.8% in November)

Comment:

The market improved slightly during the morning, to show
gains up to $\frac{1}{2}\%$, but drifted lower during the afternoon.

18th January 1983.

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