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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 19th January 1983

News of a larger-than-expected decline in US GNP in the fourth quarter (-2.5%) failed to prevent the dollar rising further on the exchanges today. With no other new factors in the market, concerns about the forthcoming elections in Germany continued to depress the deutschemark and, through it, the other European currencies. Sterling was less active than yesterday but sentiment continued to improve. The ERI closed 0.3 higher at 82.3.

After closing in New York last night at 1.5737, the pound opened in London this morning at 1.5705, with the dollar stronger also elsewhere. Some short-covering by Scandinavian banks who were selling sterling yesterday initially took the pound up to 1.5733 with the dollar then easing back temporarily. However, the dollar's weakness proved short-lived and sterling soon settled to trade around the 1.57 level. As some selling from Swiss and London banks developed in mid-morning, the rate moved down as the dollar reached new highs in Europe and it touched 1.5664 at the low. The selling was not, however, on a scale comparable with yesterday and the pound soon returned to trade for the balance of the day around 1.57 in a rather quiet market. In contrast to yesterday, most of the activity today appeared to be in Europe where the dollar ended close to its best levels of the day, while sterling closed at 1.5718. Three-month Euro-dollars, at 8 13/16%, were unchanged, as was the cost of forward cover at 2 1/2%.

The pound made further gains in Europe, finishing 5/8% up in Germany (3.79 1/2), 3/4% better in France (10.75 1/4) but only marginally firmer in Switzerland (3.10). The dollar strengthened another 1% in each of these centres, to close at 2.4140, 6.8440 and 1.9727 respectively. There was little change in EMS, where the Belgian franc (47.18) was again at the bottom, 2 3/16% below the guilder (2.6475) after purchases of Belgian francs worth \$3mn. by the Dutch. The French sold deutschemarks worth \$24mn. and Swiss francs worth \$10mn. and the Irish sold \$19mn. The yen fell 1% to 234.67.

Gold continued an active market, the price again flirting with the \$500 level. Sizeable selling, some of it apparently Soviet, appeared whenever the price broke through this barrier and both the fixings, at \$497.75 and \$495.50, were towards the bottom end of the day's trading range.

Operations:	Market	+	\$13mn.
	Interest	+	5
	Government	-	28
	Nepal	-	6
	Sundries	+	4
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		-	\$12mn.
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19th January 1983.

TRS

US BOND AND MONEY MARKETS

Wednesday, 19th January 1983

Federal Funds

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

US Governments (NY closing bids)

2-year:  $100\frac{1}{8}$  ( $-\frac{1}{4}$ )  $9\frac{5}{16}\%$   
5-year:  $100\frac{3}{4}$  ( $-\frac{3}{8}$ )  $9\frac{15}{16}\%$   
10-year:  $100\frac{1}{2}$  ( $-\frac{1}{4}$ )  $10\frac{3}{8}\%$   
30-year:  $97\frac{1}{2}$  ( $-1$ )  $10\frac{5}{8}\%$

Euro-dollars (Today's opening  
London bid)

7-day:  $8\frac{7}{8}\%$   
1-month:  $8\frac{13}{16}\%$   
3-months:  $8\frac{7}{8}\%$   
6-months:  $9\frac{1}{16}\%$

Federal Reserve Operations:

Repurchase agreement for system  
account with Fed Funds at  $8\frac{1}{2}\%$ .  
Stop rate 8.30%.

3-month Treasury Bills  $7\frac{3}{4}\%$   
3-month US bank CDs  $8\frac{1}{4}\%$   
Differential  $\frac{1}{2}\%$

Indicators

GNP 4th quarter  $-2.5\%$  a.r. (against "flash" estimate  $-2.2\%$ )

Comment:

The market moved down steadily through the day on worries about the supply of Treasury issues to be financed and reduced expectations of the discount rate cut.

The new  $\$7\frac{1}{2}$ bn. two-year was auctioned at an average of 9.25%.

20th January 1983.

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