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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 20th January 1983

Growing despondency about the prospects for further cuts in interest rates contributed to a volatile day's trading on the exchanges. Although a 1% drop in Swedish discount rate during the morning fanned hopes briefly that the Germans might follow suit, clearly the Bundesbank felt this was precluded by the current politically-related weakness of the deutschemark. At the same time, Governor Mayekawa hinted that the expected cut in Japan might be deferred, while Mr. Volcker was reported as fearing a resurgence of inflationary expectations in the US as the economic recovery commences. In erratic trading the dollar ended firm in all centres. Sterling again displayed its new-found resilience, absorbing another large commercial selling order against deutschemarks with relative ease. The ERI closed 0.1 higher at 82.4.

With the IMM actively bidding for dollars in New York last night, sterling fell back to close there at a new six-year low of 1.5597. An official institution was an aggressive seller of dollars against Swiss francs and yen in the Far East this morning and by the London opening sterling had recovered to 1.5645. At first the dollar moved lower in Europe, as rumours of the Swedish discount rate change encouraged the belief that a concerted reduction in interest rates might be possible, and sterling settled around 1.56¾. When the large selling order against deutschemarks came into the market in mid-morning, sterling moved back, touching 1.5643 at the low, but with some demand from Scandinavia the pressure was absorbed fairly easily and the rate reached 1.5727 shortly before noon. The absence of a discount rate cut by the Bundesbank perversely saw the deutschemark weaken, probably on the grounds that the prospects for a US move this Friday were thereby reduced but sterling fell back only modestly to trade around 1.57 throughout the afternoon. Although the dollar continued to firm for the balance of the day, sterling held very steady, helped by some demand from the US, ending at 1.5690. Three-month Euro-dollars were ⅛% firmer at 8 15/16% and the cost of forward cover was 2⅛%.

The pound made further progress in Europe, rising ¼% in Germany (3.80½), Switzerland (3.10⅞) and France (10.78½). Although it closed below its best levels, the dollar nevertheless ended with gains of ½% in each of these centres at 2.4250, 1.9815 and 6.8745. EMS was unchanged, the Belgian franc (47.35) 2 3/16% from the guilder (2.6552) at the top. The Italians sold $153mn., the Irish $50mn., while the Danes bought $8mn. The yen closed at 235.80.

Gold suffered from the strength of the dollar and trading was rather subdued. The fixings were at $487.50 and $487.25 but the price crept up in late business to $494.

Operations:	Market	+	$6mn.
	Iran	+	7
	Sundries	+	10
		+	$23mn.
	Overnight	+	$22mn.

20th January 1983.

TRS

US BOND AND MONEY MARKETS

Thursday, 20th January 1983

Federal Funds

Opening:	8⅜%
Range:	8¼% - 8⅜%
Close:	8⅜%

US Governments (NY closing bids)

2-year:	100	(-)	9¼%
5-year:	100⅝	(-⅛)	10%
10-year:	100½	(-)	10⅜%
30-year:	97⅝	(+⅛)	10⅝%

Euro-dollars (Today's opening London bid)

7-day:	8 13/16%
1-month:	8⅞%
3-months:	8⅞%
6-months:	9 1/16%

Federal Reserve Operations:

3-month Treasury Bills	7 13/16%
3-month US bank CDs	8 5/16%
Differential	½%

Indicators

Comment:

The market traded throughout the day in a narrow range around the previous day's closing levels.

21st January 1983.

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