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 THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 31st January 1983

A quiet start to the week with the volume of business continuing at the relatively low level of the past couple of days. The absence of a discount rate cut by the Fed last Friday, despite better-than-expected money supply figures (M1 -\$0.8bn.) and growing pessimism about the direction of US interest rates in the near future, given the signs of recovery in the economy and the prospective budget deficit, combined to take the dollar higher on the exchanges today. With some reports that OPEC might settle on a \$4 a barrel price cut, sterling eased as the day progressed. The ERI closed unchanged at 80.9, after 81.2 at the opening.

The pound closed on Friday night at 1.5380. This morning the rate opened at 1.5370 and touched 1.5380 in early business. However, the dollar soon began to move steadily ahead and sterling drifted back throughout the morning in light trading to reach 1.5310 at noon. With some discussion on the news services of a \$4 cut in the oil price, New Yorkers were modest sellers of sterling and they actively bid the dollar higher. It continued to strengthen throughout the afternoon and the pound fell back to 1.5240 shortly before the close at 1.5254. Later, as the dollar rose further, sterling was marked down to 1.5195. Three-month Euro-dollars were  $\frac{1}{8}\%$  firmer at 9  $\frac{7}{16}\%$  and the cost of forward cover rose to 2  $\frac{1}{8}\%$ .

The pound was rather firmer in Europe, gaining  $\frac{1}{4}\%$  in Germany (3.74 $\frac{1}{2}\%$ ), Switzerland (3.06) and France (10.61 $\frac{1}{2}\%$ ). The dollar rose 1% in each of these centres to close at 2.4562, 2.0060 and 6.9615. In EMS, the Belgian franc (48.07) closed 2  $\frac{3}{16}\%$  below the guilder (2.6972) after the sales of \$9mn. of florins by the National Bank. The French recouped \$122mn. worth of deutschemarks, the Italians \$80mn. and the Danes \$7mn. of deutschemarks. The yen slipped to 239.07.

Again under the influence of silver which was very firm, gold moved up strongly throughout the morning, fixing at \$503, the first fixing above \$500 since May 1981. However, in the face of the dollar's strength later in the day the price could not hold the higher levels and the second fixing was at \$499.50.

Operations:	Market	-	\$8mn.
	Iran	+	7
	Sundries	+	4
			<hr/>
		+	\$3mn.
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	Overnight	-	\$7mn.
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The result for January is a fall in reserves of \$143mn. to a level of \$16,854mn., after new public sector borrowing of \$62mn. and a repurchase under the IMF oil facility of \$57mn. The renewal of the ECU swap caused a rise of \$211mn. in the value of the spot reserves and an equivalent fall in the forward book which was reduced overall by \$253mn. to an oversold position of \$29mn.

31st January 1983.

TRS

US BOND AND MONEY MARKETS

Monday, 31st January 1983

Federal Funds

Opening: 8 $\frac{3}{8}$ %  
Range: 8 $\frac{3}{8}$ % - 8 $\frac{5}{8}$ %  
Close: 8 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 99 $\frac{3}{8}$  (- $\frac{1}{4}$ ) 9 $\frac{5}{8}$ %  
5-year: 99 $\frac{1}{8}$  (- $\frac{1}{4}$ ) 10 5/16%  
10-year: 98 $\frac{1}{4}$  (- $\frac{5}{8}$ ) 10 $\frac{1}{2}$ %  
30-year: 95 (- $\frac{5}{8}$ ) 10 15/16%

Euro-dollars (Today's opening  
London bid)

7-day: 9 1/16%  
1-month: 9 $\frac{1}{4}$ %  
3-months: 9 9/16%  
6-months: 9 13/16%

Federal Reserve Operations:

Bought \$350mn. Treasury Bills for  
customers.

3-month Treasury Bills 8 3/16%  
3-month US bank CDs 8 $\frac{5}{8}$ %  
Differential 7/16%

Indicators

Comment:

The market traded steadily lower until mid-afternoon,  
producing falls of up to 1 point, before staging a modest recovery.

1st February 1983.

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