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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 15th January 1982

Sterling enjoyed a much better day. Professional short-covering and useful commercial demand ensured that the pound led the field as the dollar went into retreat. The RPI proved supportive. The ERI rose from 90.3 to 90.6.

With the American bond market enjoying a healthy rally as operators anticipated a spate of forthcoming recessionary indicators, the dollar lost ground in New York yesterday and sterling gained half a cent to 1.8675 before closing at 1.8652. This morning the dollar opened little changed. The pound began at 1.8640 and was quickly dealt up to 1.8685 on the early exchanges before settling back a little over the opening level. Modest buying on oil company account took sterling firmer in mid-morning and when Euro-dollars softened and the dollar eased in sympathy, the rate crested 1.87. The Retail Price Index was well received, professionals bidding sterling quickly to 1.8760, and when New York returned to find an encouraging 0.3% increase in December's US Producer Price Index, together with a hefty 2.1% decline in Industrial Production, the pound rose to 1.8805 as the dollar fell back. All too quickly, however, the rally in the US bond market was stopped short by professional selling; the dollar rebounded and sterling retreated rapidly to 1.8707 before closing at 1.8720. Later, with the Federal Reserve draining liquidity from the domestic system (Federal Funds were a steady 12 $\frac{3}{8}$ %), the dollar moved sharply firmer. Sterling, however, fell no lower than 1.8672. Three-month Euro-dollars were  $\frac{1}{8}$ % easier (14  $\frac{3}{16}$ %), sterling deposits 1/16% off (15 $\frac{1}{2}$ %). The forward discount was unchanged at 15/16% p.a. and sterling's intrinsic premium thus rose to  $\frac{3}{8}$ %.

The pound regained  $\frac{3}{8}$ % in Zurich (3.47 $\frac{5}{8}$ ) and  $\frac{1}{2}$ % in Paris (10.94 $\frac{7}{8}$ ) and Frankfurt (4.31 $\frac{3}{8}$ ). The dollar eased in these centres to 1.8570, 5.8487 and 2.3045 respectively. The French franc returned to the top of EMS, 1 $\frac{1}{2}$ % above the Belgian franc (39.20). The Italians bought \$37mn. and the Dutch took in \$22mn-worth of deutschemarks. With Tokyo closed, the yen met some solid demand, firming to 223 before closing at 223.85.

Gold was a good deal steadier and managed to maintain yesterday's better levels. Fixings were \$377.25 and \$379.25.

Operations:	Market	+	\$5mn.
	BIS	+	45
	Iran	+	7
	India	+	6
	Sundries	-	4
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		+	\$59mn.
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*JGH* 15th January 1982.  
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US BOND AND MONEY MARKETS

Friday, 15th January 1982

Federal Funds

Opening: 12½%  
Range: 12¾% - 12½%  
Close: 12¾%

US Governments (NY closing bids)

2-year: 96½ (-¾) 15.13  
5-year: 92 11/32 (-1½) 14.91  
10-year: 95¾ (-2¼) 15.05  
30-year: 96¼ (-2) 14.55

Euro-dollars (Today's opening  
London bid)

7-day: 13¾%  
1-month: 13¾%  
3-months: 14¾%  
6-months: 15½%

Federal Reserve Operations:

Reserve repurchase agreements for  
System account at 12¾%  
Stop rate:- 12.40%  
Sales of \$110mn.  
Treasury Notes for Customer Account

Indicators: Producer Price Index (December): +0.3% (November +0.5%)  
Industrial Production (December): -2.1% (November -1.9%)  
M1 +\$9.8bn. (13 weeks: +10.1% a.r.)  
M2 +\$17.5bn. (December)

Comment: The market opened firmer, extending yesterday's rally, in the light of the constructive indicators. Professional selling soon developed, however, and, with retail buyers absent, the market went into reverse. The money supply was well above consensus expectations and closing yields were the highest for three months.

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15th January 1981.  
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