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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 18th January 1982

First indications of the likely result of the miners' vote boosted sterling this morning. The dollar, too, was very strong, following the huge increase in money supply reported on Friday. Both currencies, however, were sold at the higher levels, the professional offering of sterling for deutschemarks merely accentuating the dollar's downward trend. Sterling's ERI rose from 90.6 to 90.8.

The dollar closed very much firmer on Friday in New York following release of a \$9.8bn. increase in M1. Sterling fared better than most but was still marked back by over a cent to finish there at 1.8605. This morning the pound began at 1.8640 and, after touching 1.8617, pulled ahead to 1.8675 (DM 4.33½). There was good, general demand for sterling, with sentiment clearly improved by the news of the miners' vote. Against the deutschemark, these levels looked expensive to certain professionals and a strong, two-way market developed. With the dollar retreating, however, sterling reluctantly edged forward to 1.87 and traded around that level into the afternoon. New York returned with Federal Funds firmer at 12½% but the bond market advancing. The dollar thus retreated and sterling rose to 1.8780 before closing at 1.8744. Three-month Euro-dollar deposits gained 3/16% (14¾%), sterling was unchanged (15½%). The cost of cover narrowed by ¼% to 11/16% p.a. and the covered differential rose slightly to 7/16% in London's favour.

The pound was unchanged in Switzerland (3.47½) but gained ¼% in Germany (4.31½) and ¾% in France (10.98½). The dollar was barely changed in Frankfurt (2.3040, after 2.3285) but a touch softer in Zurich (1.8842, after 1.8690) and rather firmer in Paris (5.8625). The Bundesbank sold \$425mn. (of which \$200mn. outright forward); the French spent \$72mn. The lira (1233.50) and Belgian franc (39.25) spanned EMS at the close, 1½% apart. The Italians bought \$49mn., the Belgians sold \$43mn. and \$5mn.-worth of Swiss francs. In Tokyo this morning, the Japanese sold \$67mn. The yen closed there at 226.65 but recovered to close in London at 225.10.

After touching a new, two-year low of \$366 this morning, gold improved as the dollar retraced its steps. Fixings were \$369.75 and \$373.75.

Operations:	Market	+	\$29mn.
	BIS	+	42
	Sundries	+	6
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		+	\$77mn.
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18th January 1982.

JGH

US BOND AND MONEY MARKETS

Monday, 18th January 1982

Federal Funds

Opening: 12 $\frac{3}{8}$ %  
Range: 12 $\frac{3}{8}$ % - 13 $\frac{1}{4}$ %  
Close: 13 $\frac{1}{8}$ %

US Governments (NY closing bids)

2-year: 97 $\frac{1}{8}$  (14 $\frac{3}{4}$ %)  
5-year: 93 $\frac{1}{2}$  (14 9/16%)  
10-year: 97 $\frac{7}{8}$  (14 9/16%)  
30-year: 98 $\frac{1}{2}$  (14 $\frac{1}{4}$ %)

Euro-dollars (Today's opening  
London bid)

7-day: 13 3/16%  
1-month: 13 9/16%  
3-months: 14 $\frac{1}{4}$ %  
6-months: 15 $\frac{1}{8}$ %

Federal Reserve Operations:

Reverse repurchase agreements with  
Federal Funds @ 12 $\frac{7}{8}$ %

Indicators

Industrial capacity utilisation index for December 72.9  
(c.f. 74.9 in November)

Comment:

The market opened slightly above Friday's depressed closing levels and rallied quietly and steadily throughout the day on short covering and professional buying. There seemed, again, to be little retail demand. The market ended close to its highs, the long bond having gained 2 points.

19th January 1982.

TRS

