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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 19th January 1982

The exchanges today danced very much to the tune of the US bond markets. Yesterday's strength in bonds made for a softer dollar this morning but a reversal in the debt markets this afternoon brought some recovery in the dollar. Sterling performed well again and led the field home. Further reflection on the miners' vote and the exhaustion of the tap more than countered any pressure which may have derived from the continuing softening in interest rates. The ERI rose from 90.8 to 91.5.

With the US bond market maintaining a steady advance throughout yesterday, despite an uptick in Federal Funds to 13%, the dollar's substantial correction was carried further in New York and sterling rose to 1.8920 before closing at 1.8880. This morning the pound opened at 1.8880 and hovered around 1.89 on the early exchanges. Soon enough the dollar continued easier again and sterling forged ahead to 1.8980 (topping DM 4.33 in the process) before profits were taken. As yesterday there was an extremely good two-way market in pounds. Once again, too, there were sellers of sterling for deutschemarks at the higher levels but today these were less obvious and there were rather more participants who anticipated continuing gains for sterling in Europe. The pound traded quietly around 1.8950 throughout the lunch-break. Early Americans bought the dollar, sterling retreating to 1.89, but, when the bond market opened firmer again - notwithstanding that Federal Funds were trading at 13½% - the dollar eased once more, sterling rising to 1.8965. Finally, however, the debt market sold off, when money traded at 13½%, and the dollar turned up once more, although sterling was reluctant to retreat any further than its closing 1.8950. Three-month sterling deposits shed ⅜% (15⅜%) while Euro-dollars lost only ¼% (14¼%). The forward discount narrowed by only 3/16% to ½% p.a. and sterling's intrinsic premium fell to ⅜%.

The pound gained ⅜% in Switzerland (3.48⅞) and ½% in each of France (11.03¼) and Germany (4.34). The dollar eased in these countries to 1.8410, 5.8247 and 2.2902 respectively. EMS was extended to 1⅝% in width between the lira (1225.05) and Belgian franc (39.03). The Bundesbank sold \$52mn. at their fixing, the Belgians sold \$38mn. and a few guilders and Swiss francs and the Italians spent \$136mn. Elsewhere the Swedes lost \$72mn. The yen improved modestly to 224.45.

Gold followed the dollar, improving to \$377.25 at this morning's fixing but softening to \$375.25 at this afternoon's fixing and \$374.50 at the close.

Operations:	Market	+ \$10mn.
	IDA	+ 12
	Iran	+ 7
	Sundries	- 2
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		+ \$27mn.
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	Overnight	+ \$8mn.
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19th January 1982.

JGH

US BOND AND MONEY MARKETS

Tuesday, 19th January 1982

Federal Funds

Opening: 13 $\frac{1}{8}$ %
Range: 13% - 13 $\frac{5}{8}$ %
Close: 13 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 97 (- $\frac{1}{8}$) 14 13/16%
5-year: 93 $\frac{3}{8}$ (- $\frac{1}{8}$) 14 $\frac{5}{8}$ %
10-year: 97 $\frac{3}{8}$ (- $\frac{1}{2}$) 14 $\frac{3}{4}$ %
30-year: 97 $\frac{3}{4}$ (- $\frac{3}{4}$) 14 5/16%

Euro-dollars (Today's opening
London bid)

7-day: 13 5/16%
1-month: 13 $\frac{5}{8}$ %
3-months: 14 5/16%
6-months: 15 $\frac{1}{8}$ %

Federal Reserve Operations:

Treasury Bill sales for system
account and \$200mn. for customer
account.

Indicators Housing starts for December +13.3% (November +0.8%)

Comment:

Although Fed Funds moved to 13 $\frac{1}{4}$ % soon after the opening, yesterday's professional rally was continued during the first half of the day, by when the long bond had gained a point. The Fed did not intervene at their usual time but came in later (1.30 New York time) to drain funds from the system by outright bill sales. This sent the market into reverse and when the housing starts figure for December showed unexpected strength the market fell further. It closed slightly above its weakest levels.

20th January 1982.

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