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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 20th January 1982

Yesterday's unexpectedly large increase in US housing starts together with a permanent draining of reserves by the Federal Reserve (and money trading thereafter at 13½%) sparked the latest upward movement in the dollar's see-saw. Sterling was again well traded and proved reluctant once more to yield ground. Further small gains were scored on the Continent. The ERI fell slightly to 91.4.

The pound closed half a cent cheaper at 1.8895 yesterday in New York, where the dollar was generally a good deal firmer following a 13% (a.r.) increase in US housing starts and outright sales of "all Treasury Bills" on system account by the Federal Reserve. This morning sterling opened at 1.8845, although the dollar was little changed elsewhere. Early portfolio demand from Amsterdam brought the pound up to 1.8885. Thereafter sterling traded in a narrow range around 1.8850, touching 1.8825 at worst early this afternoon before closing at 1.8865. Early Americans were good buyers of pounds and the large corporates made a good two-way market. Three-month Euro-dollars hardened by ¼% (14½%) while the comparable sterling deposit softened by 5/16% (14 13/16%). The cost of cover narrowed by ⅜% to ½% p.a., so that the covered differential fell to 3/16% in London's favour. Following this marked divergence in transatlantic rates, the six and twelve-month forward margins swung to a substantial premium for sterling.

The pound gained ⅜% on the French franc (11.05½) and deutschemark (4.34½) and ⅜% on the Swiss franc (3.50½). The gain on the deutschemark was won in the face of Bundesbank support for the currency totalling \$200mn. (half of which outright forward) and a commercial seller of pounds for DM 120mn. The deutschemark eased to 2.3045 (after 2.31) against the dollar. The French franc weakened to 5.8610, after 5.8690 in the fixing where \$80mn. were bid for. The florin (2.5247) and Belgian franc (39.18) contained EMS at the close, 1½% apart. The Italians sold \$23mn. and the Danes \$12mn. The yen eased to 225.32.

With the dollar strengthening, gold again tested the \$370 level, but without ever seriously breaching it. Fixings were \$371.75 and \$371.50.

Operations:	Market	+	\$2mn.
	India	+	9
	Sundries	+	7
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		+	\$18mn.
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20th January 1982.

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US BOND AND MONEY MARKETS

Wednesday, 20th January 1982

Federal Funds

Opening: 13 $\frac{3}{8}$ %  
Range: 13 $\frac{3}{8}$ % - 16%  
Close: 14 $\frac{1}{8}$ %

US Governments (NY closing bids)

2-year: 96 $\frac{7}{8}$  (- $\frac{1}{8}$ ) 14 $\frac{7}{8}$ %  
5-year: 93 $\frac{1}{4}$  (+ $\frac{3}{8}$ ) 14 $\frac{1}{2}$ %  
10-year: 97 $\frac{1}{4}$  (+ $\frac{3}{8}$ ) 14 $\frac{5}{8}$ %  
30-year: 98 $\frac{1}{4}$  (+1) 14 3/16%

Euro-dollars (Today's opening  
London bid)

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

Federal Reserve Operations:

Overnight repurchase agreements  
with Fed Funds at 14 $\frac{1}{4}$ % (stop  
rate 12.70%).

Indicators

GNP in the fourth quarter of 1981 fell at an annual rate  
of 5.2% (revised from first estimate of -5.4%).

Comment:

With Fed Funds opening higher than Tuesday and soon moving to 13 $\frac{7}{8}$ %, the market started to give ground, losing about half a point at the long end in the first hour of trading. Fed action in supplying reserves to the system, after Tuesday's draining operation, caused confusion but after some hesitation the market started to recover except at the short end, where the large (\$5.2bn) two-year note auction prevented any rally. Fed Funds continued to move higher during the afternoon, reaching 16% but when they fell away again the market recovered further, particularly in the intermediate and long area, ending at the day's highs. The better-than-expected results of the two-year auction (15.08% yield) helped the firmer tone.

21st January 1982.

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