

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSThursday, 21st January 1982

A widely anticipated reduction in German Special Lombard Rate (by  $\frac{1}{2}\%$  to 10%), followed by a similar reduction in the Netherlands in both Discount Rate (to  $8\frac{1}{2}\%$ ) and Lombard Rate (to  $9\frac{1}{2}\%$ ) gave much food for thought but engendered little excitement on the exchanges today. The German announcement provoked short-covering in the deutschemark, which finished the day somewhat better. Sterling was again well traded and remained fairly steady throughout. The ERI closed unchanged at 91.4.

The pound ended yesterday at 1.8880 in New York. This morning it began at 1.8862 - with the dollar generally little changed - and advanced to 1.8895 on good commercial demand from the Far East before settling around the opening level. The rest of the morning was fairly quiet for the pound, although the dollar strengthened in Germany ahead of the Bundesbank's Council meeting. In the event, the reduction in Special Lombard Rate strengthened the deutschemark, partly no doubt on short-covering, partly perhaps since some had anticipated a reduction of 1%. The US bond market opened better, too, and as the dollar eased, demand from the Continent pushed sterling to 1.8930. Eventually, however, the dollar turned and the pound closed uncertainly at 1.8890. New York were late sellers of sterling, which traded on down to 1.8795. Three-month Euro-dollars were  $1/16\%$  firmer ( $14\ 9/16\%$ ), while the sterling deposit lost  $3/16\%$  ( $14\frac{5}{8}\%$ ). The three-month forward margin was negligible and both covered and uncovered differentials were thus at  $1/16\%$  in London's favour.

The pound gave up  $\frac{1}{8}\%$  in Paris (11.04 $\frac{1}{2}$ ) and  $\frac{1}{4}\%$  in both Zurich (3.49 $\frac{1}{2}$ ) and Frankfurt (4.33 $\frac{3}{8}$ , after 4.35 $\frac{3}{8}$ ). The dollar eased in these centres to 5.8472, 1.8490 and 2.2970 respectively. EMS remained  $1\frac{3}{8}\%$  spread between the florin (2.5170) and Belgian franc (39.07). The Italians bought \$45mn. The Danes sold \$43mn., the Germans \$22mn. The yen closed slightly firmer at 225.12.

Gold was steady and a little better. Fixings were \$375.25 and \$376.00.

Operations:	Market:		
	Spot	+ 6	
	Forward	+28	+ \$34mn.
	BIS		+ 19
	Interest		+ 12
	Sundries		+ 2
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			+ \$67mn.
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	Overnight		- \$9mn.
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*JGH* 21st January 1982.

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US BOND AND MONEY MARKETS

Thursday, 21st January 1982

Federal Funds

Opening: 13 $\frac{1}{4}$ %  
Range: 13 $\frac{1}{4}$ % - 13 $\frac{3}{4}$ %  
Close: 13 $\frac{5}{8}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{8}$  (- $\frac{1}{8}$ ) 14 15/16%  
5-year: 93 $\frac{1}{2}$  (- $\frac{1}{4}$ ) 14 $\frac{5}{8}$ %  
10-year: 98 $\frac{1}{8}$  (+ $\frac{3}{8}$ ) 14 $\frac{5}{8}$ %  
30-year: 98 $\frac{3}{4}$  (-) 14 3/16%

Euro-dollars (Today's opening  
London bid)

7-day: 13 11/16%  
1-month: 13 $\frac{7}{8}$ %  
3-months: 14 $\frac{1}{2}$ %  
6-months: 15 $\frac{1}{4}$ %

Federal Reserve Operations:

Four-day reverse repurchase  
agreements with Federal Funds at  
13 $\frac{1}{2}$ %. Stop rate 13.58%.

Indicators

Comment:

The market opened up strongly with Fed Funds lower than expected at 13 $\frac{1}{4}$ %. After falling back on some early profit-taking and a rise in Funds to 13 $\frac{1}{2}$ %, prices recovered and moved a little higher during the morning. When the Fed did not appear at their usual time to do reverses (which were widely anticipated) the market started to move ahead strongly, taking on a very positive tone. At this stage the long bond had gained close to a point. At 1.30, however, (40 minutes later than normal) the Fed dismayed the market by entering to do reverses and all the gains were lost. Trading throughout the remainder of the day was quiet and thin.

22nd January 1982.

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