

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 25th January 1982

Friday's unexpected increase in the US money supply sent the dollar to new, recent high levels today as eurodollar deposits were marked up by 1% and more. Sterling saw two-way business but proved relatively well-protected, only the yen performing better on the day. The ERI fell from 90.9 to 90.7.

The pound closed over a cent lower at 1.8610 on Friday in New York where the dollar was substantially firmer in the wake of the increase in M1. This morning the dollar opened below its best levels and remained subdued for a while by the threat of official support for European currencies. Once this receded, however, it moved ahead to new, high levels. Sterling reflected this movement, opening at 1.8657 and falling after a while to around 1.86 on Swiss professional selling and commercial offering in London. As the dollar later forged ahead, the pound retreated to around 1.8550 but rarely fell much below that level. Central Bank demand for pounds was observed, matched later by British commercial selling. Early Americans bought sterling and the rate rose to 1.8578. With the dollar scaling new heights, however, as Federal funds advanced from 14½% to 15%, the pound came back to 1.8485 before closing at 1.8510. Three-month eurodollars were 1½% firmer (16%); the sterling deposit was harder by ¼% (14½%). Sterling's forward premium widened by almost 1% to 1 5/16% p.a., leaving only a modest intrinsic premium.

The pound was unchanged in Zurich (3.46½) but gained ⅓% in Paris (11.02½) and Frankfurt (4.33½). The dollar was firmer by 1½% in Zurich (1.8717), 1½% in Paris (5.9585) and Frankfurt (2.3420). EMS narrowed to 1½% between the florin (2.5627) and Belgian franc (39.72). The Irish sold \$20mn., the Germans \$40mn. and the French \$62mn. The Japanese spent \$48mn. in New York on Friday and \$30mn. in Tokyo this morning. The yen closed 1% cheaper in London at 229.41.

Gold lost \$5 in the Far East this morning but was thereafter steady. The fixings were fairly active and set levels of \$373.50 and \$372.

Operations:	Market	+	\$2mn.
	British Telecom		
	(PSB G'teed)	+	100
	Egypt	+	6
	Sundries	+	5
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		+	\$113mn.
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US BOND AND MONEY MARKETS

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Federal Funds

Opening: 14½%
Range: 14½% - 15%
Close: 14¾%

US Governments (NY closing bids)

2-year: 100½ (+½) 14 15/16%
5-year: 93½ (+½) 14 11/16%
10-year: 98 (+¾) 14¾%
30-year: 98½ (+1) 14¾%

Euro-dollars (Today's opening
London bid)

7-day: 14 13/16%
1-month: 15%
3-months: 15¾%
6-months: 16%

Federal Reserve Operations:

System and customer repurchase
agreements with Fed Funds at
14¾%. Stop rate 12.50%.

Indicators

Durable goods orders rose 1.6% in December (c.f.
revised +1.8% in November).

Comment:

The market opened lower, with Fed Funds at 14½%, and improved slightly in very quiet trading during the morning. The Fed action, supplying reserves to the system, improved the tone during the afternoon and prices rose further, helped by an easing in the Funds rate but trading was mainly professional. The durable goods figures caused a slight setback but prices recovered again thereafter, ending about ½ below their best levels.

26th January 1982

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