

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 26th January 1982

The dollar remained obstinately firm this morning but eased considerably this afternoon following Volcker's Congressional testimony in which he ascribed the recent surge in money to temporary factors. Sterling saw two-way activity again but remained quite firm on the Continent. The ERI rose from 90.7 to 90.9.

The pound closed at 1.8570 yesterday in New York, where the dollar was generally easier following the Federal Reserve's injection of liquidity into the domestic system. This morning, Euro-dollars opened around $\frac{1}{8}\%$ softer but soon turned firmer again and the dollar responded accordingly. Sterling opened at 1.8555 but, despite the better dollar, improved to 1.8587 on Swiss professional and UK corporate demand, before settling around the opening level. Later this morning the dollar surged forward again and this time the pound eased back to 1.8515, with Swiss and Eastern bloc sellers prominent. Early Americans, however, sold the dollar and it continued softer when Federal Funds opened at $14\frac{3}{8}\%$ and eased eventually to $14\frac{1}{2}\%$. The US bond market, too, had a much better tone following Volcker's testimony and the prompt re-appearance of the Federal Reserve to execute repurchase agreements for the System. The pound advanced to close at 1.8600, its best level of the day, and traded on in the twilight hour to 1.8710. Three-month Euro-dollars finished $\frac{3}{8}\%$ softer ($15\frac{3}{8}\%$), sterling deposits were off $3/16\%$ ($14\ 9/16\%$). Sterling's forward premium narrowed to $1\ 3/16\%$ p.a. and a small intrinsic premium remained.

The pound closed $\frac{3}{8}\%$ easier against each of the Swiss franc ($3.45\frac{7}{8}$), French franc (11.01) and deutschemark ($4.32\frac{7}{8}$). The dollar eased against these currencies to 1.8595 (later 1.8547), 5.9200 (later 5.9025) and 2.3275 (later 2.3180) respectively. EMS widened slightly to $1\frac{3}{8}\%$ in width between the florin (2.5507) and Belgian franc (39.58). The Danes sold \$20mn. and the Irish \$16mn. The Japanese spent \$30mn. in Tokyo this morning. The yen closed there at 229.30. In London it advanced modestly to 228.85.

Gold reflected the dollar's movements, improving somewhat over the day. Fixings were \$373.50 and \$376.50.

Operations:	Market	+	\$11mn.
	Ghana	-	9
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		+	\$2mn.
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US BOND AND MONEY MARKETS

Tuesday, 26th January 1982

Federal Funds

Opening: 14 $\frac{3}{8}$ %
Range: 14 $\frac{3}{8}$ % - 13 $\frac{1}{2}$ %
Close: 13 $\frac{3}{4}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{2}$ (+ $\frac{3}{8}$) 14 11/16%
5-year: 93 $\frac{5}{8}$ (+ $\frac{3}{8}$) 14 $\frac{1}{2}$ %
10-year: 98 $\frac{1}{2}$ (+ $\frac{1}{2}$) 14 $\frac{1}{2}$ %
30-year: 98 $\frac{7}{8}$ (+ $\frac{3}{8}$) 14 3/16%

Euro-dollars (Today's opening
London bid)

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

Federal Reserve Operations:

System repurchase agreements with
Fed Funds at 14 $\frac{1}{8}$ %. Stop rate
12.28%.

Indicators

Comment:

The market opened strongly with funds lower than expected and, after some initial hesitation, started to move higher. Volcker's comments to Congress that the recent increase in the money supply was a temporary bulge and that the present was not an appropriate time for an increase in the discount rate boosted prices further and there was some retail buying. The Fed intervention, which was not widely anticipated, fuelled the rally so that by mid-day the long bond was up over a point. Although funds fell lower during the afternoon, prices drifted back in thinner trading as participants became nervous about the contents of the state of the union address.

27th January 1982.

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