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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 27th January 1982

A good deal of uncertainty was evident on the exchanges today. Despite President Reagan's budget outline, which appeared to offer little hope of lower interest rates, the dollar was weaker this morning as dealers saw Volcker's remarks as more pertinent to the immediate future than those of Reagan. This afternoon, however, a hesitant and volatile bond market (albeit improved) enabled the dollar to erase most of the day's losses. Sterling was less actively traded and remained comfortable. The ERI advanced from 90.9 to 91.3.

The pound touched 1.8750 in New York yesterday before closing there at 1.8705. The dollar continued generally softer in the wake of Volcker's testimony, and, in particular, his assertion that Discount Rate would not be increased in the near future, rebounding somewhat towards New York's close as Federal Funds ticked up to 13¾%. This morning, uncertainty prevailed from the outset. Euro-dollars opened ¼%-½% easier through the list, only to be marked up quickly by 3/16%. The dollar, however, tended progressively softer on professional selling, especially for deutschemarks. Sterling opened at 1.8715, dipped to 1.8668 but regained opening levels on professional London interest. Later some keen demand was seen, with French banks prominent, and the rate advanced to 1.8795 before settling around 1.8775. Federal Funds opened briefly at 13% and, with the dollar offered, sterling touched 1.8795 again. With money at 13¼%, however, and the bond market, while better, yet stalled for want of inspiration, the dollar began a sustained recovery and sterling came back to close at 1.8746. Three-month sterling deposits lost ⅛% (14½%), dollar deposits ¾% (14⅞%). The forward premium narrowed only to ¾% p.a. and sterling's intrinsic premium rose to ⅜%.

The pound was a little firmer in Zurich (3.46⅛) and Frankfurt (4.33⅝) and ⅜% better in Paris (11.04⅝). The dollar eased in these centres to 1.8465, 2.3130 and 5.8925 respectively. The deutschemark gained more from the anticipation than the reality of a much improved current account. EMS narrowed to only 1% between the florin (2.5410) and Belgian franc (39.29). The French bought $55mn. but the Danes sold $60mn. and the Dutch and Irish $20mn. apiece. Elsewhere the Swedes spent $52mn. The yen was little changed at 228.75.

Gold was very active. A good two-way market around yesterday's levels gave way to a protracted fixing in which $384 was tested before $382.50 was set. The breaching of the $380 level unleashed short-covering by the commission houses and the metal remained comfortably above that level for the rest of the day, fixing this afternoon at $381.75.

Operations:	Market	+	$7mn.
	Sundries	-	5
		+	$2mn.

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27th January 1982.

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US BOND AND MONEY MARKETS

Wednesday, 27th January 1982

Federal Funds

Opening:	13%
Range:	13% - 14¼%
Close:	14%

US Governments (NY closing bids)

2-year:	100⅝	(+⅛)	14⅝%
5-year:	93½	(-⅛)	14 9/16%
10-year:	98⅜	(-⅛)	14 9/16%
30-year:	98⅛	(-¾)	14¼%

Euro-dollars (Today's opening London bid)

7-day:	14%
1-month:	14½%
3-months:	15 1/16%
6-months:	15½%

Federal Reserve Operations:

Customer repurchase agreements with Fed Funds at 13¼%. Stop rate 12.26%.

Sales of $200 Treasury Bills for customer account.

Indicators

Quarterly refunding

Maturity	Amount	Maturity Date
3 year	$5.0bn.	15. 2.85
10 year	2.5bn.	15. 2.92
30 year	2.5bn.	15.11.11

Comment:

The market opened up comfortably with funds lower than expected at 13% and prices improved in mainly professional trading. However, as funds started to move higher, activity died, and when the Fed entered to do customer repurchases (rather than system, as some participants had hoped) and then sold Treasury Bills as well, the gains were surrendered. In light trading during the afternoon prices eased a little, awaiting the quarterly refunding package. When this was announced as $10bn. (the top end of the range of expectations) the long end of the market fell back.

28th January 1982.

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