

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 28th January 1982

Sterling performed well today, meeting demand from Europe and America, while the dollar remained generally firm. Interest rates continued to dominate the dollar, which closed below its best as the bond market came in firmer. Sterling's ERI rose from 91.3 to 91.6.

The pound closed half a cent weaker at 1.8690 yesterday in New York, where the dollar was generally harder in the wake of a \$10bn. refunding package and a closing level of 14% for Federal Funds. This morning Europe began where New York left off but the dollar soon firmed further as Euro-dollars opened higher by $\frac{1}{8}\%$ - $\frac{1}{4}\%$. Sterling opened at 1.8685 and eased to 1.8645 as the dollar strengthened. Later, however, a sudden wave of demand from varied professionals, official, banking and corporate, drove the pound up to 1.8706 before a range was re-established just below 1.87. This afternoon, Federal Funds started at $14\frac{1}{8}\%$ but tended lower and the US bond market was in fine form. The dollar eased and sterling met keen interest from New York, rising to 1.8760 before closing at 1.8745. Three-month Euro-dollars (15 $\frac{1}{16}\%$) were $\frac{3}{16}\%$ better, the sterling deposit ($14\frac{1}{2}\%$) unchanged. The pound's forward premium, however, narrowed by $\frac{3}{16}\%$ to $9\frac{1}{16}\%$ p.a. so that interest parity prevailed.

Sterling gained $\frac{1}{4}\%$ on the French franc (11.07 $\frac{1}{2}$) and $\frac{1}{2}\%$ on the deutschemark (4.35 $\frac{1}{2}$) and Swiss franc (3.48). The dollar hardened against these currencies to 5.9080, 2.3241 and 1.8562 respectively. The French franc ousted the florin at the top of EMS, both around $1\frac{1}{2}\%$ distant from the Belgian franc (39.52). The French took in \$30mn.-worth of deutschemarks but the Danes sold \$8mn., the Germans \$23mn., the Italians \$24mn. and the Irish \$32mn. Elsewhere the Swedes spent \$50mn. and the Japanese sold \$60mn. in New York yesterday and \$30mn. in Tokyo this morning. The yen was especially weak, falling to 231.22 in London before closing at 230.57.

Gold was less active but still relatively buoyant, given the dollar's strength. Fixings were \$381.50 and \$383.50.

| | | | |
|-------------|----------|---|----------------|
| Operations: | Market | + | \$23mn. |
| | Interest | + | 27 |
| | Sundries | + | <u>4</u> |
| | | + | <u>\$54mn.</u> |

Jem 28th January 1982.

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US BOND AND MONEY MARKETS

Thursday, 28th January 1982

Federal Funds

Opening: 14%
Range: 13 $\frac{7}{8}$ % - 14 $\frac{1}{8}$ %
Close: 14 $\frac{1}{8}$ %

US Governments (NY closing bids)

2-year: 101 $\frac{1}{4}$ (+ $\frac{5}{8}$) 14 $\frac{1}{2}$ %
5-year: 94 $\frac{3}{4}$ (+1 $\frac{1}{4}$) 14 $\frac{1}{2}$ %
10-year: 100 $\frac{3}{8}$ (+2) 14 3/16%
30-year: 100 $\frac{1}{4}$ (+2 $\frac{1}{2}$) 13 15/16%

Euro-dollars (Today's opening
London bid)

7-day: 13 $\frac{7}{8}$ %
1-month: 14 3/16%
3-months: 14 9/16%
6-months: 15 3/16%

Federal Reserve Operations:

Customer repurchase agreements with
Fed Funds at 13 $\frac{3}{8}$ %. Stop rate
13.20%.

Indicators December trade deficit: \$1.5bn. (November -\$4.1bn.)
Leading indicators +0.6% (November -0.3%)

Comment:

After a brief dip on the opening, the market went from strength to strength throughout the day. The rise in leading indicators was shrugged off. The Fed's activity and the relative steadiness of Federal Funds were encouraging and the Trade Figures, which showed a much smaller deficit than expected, brought the market to close around best levels.

JGH 29th January 1982.

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