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FOR

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 29th January 1982

The dollar was well offered this morning following yesterday's strength in the US bond market. Sterling was particularly firm and touched new, recent high levels on the Continent. Later, however, there was some reaction when the United States failed to follow the earlier trend and the week ended quietly. Sterling's ERI rose to 91.7.

The pound closed little changed at 1.8740 yesterday in New York, although the dollar was otherwise firmer. The US published a December trade deficit of \$1½bn., which was considerably smaller than expected and encouraged the bond market to a strong close. This brought Euro-dollars off this morning by ¼% or so and the dollar was sold in the Far East, especially by American banks. Sterling, in particular, was in good demand and traded there above DM 4.37. In London the pound opened at 1.8830 (DM 4.36½) and advanced to 1.8895 as the dollar weakened further. Swiss professional buying was seen. At these levels, short positions in the dollar were covered. Sterling settled around 1.8850 and traded close to that level all day, touching 1.8822 before closing at 1.8835. The US bond market failed to extend yesterday's rally with any conviction and the dollar continued a gradual recovery. Three-month Euro-dollars closed 7/16% off at 14¾%, the sterling deposit was unchanged at 14½%. Sterling's forward premium narrowed by only ¼% to 5/16% p.a. but the covered differential remained slightly in London's favour.

The pound closed unchanged in Germany (4.35½), was a touch softer in Switzerland (3.47½), a touch firmer in France (11.08½). The dollar eased in these countries to 2.3130, 1.8447 and 5.8865 respectively. EMS widened to 1¾% as the Belgian franc (39.49) fell away from the pack ahead of the weekend. The guilder (2.5390) edged out the French franc at the top. The Irish spent \$12mn., the Germans \$15mn. and the Danes \$23mn. Elsewhere, the Swedes sold \$16mn. and the yen firmed to 228.25.

Gold was bid strongly up to \$390 early this morning as the dollar weakened but failed to breach that level. The fixings set prices of \$388.25 and \$387.

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|-------------|----------|---|-------------|
| Operations: | Market | + | \$21mn. |
| | India | + | 9 |
| | Ghana | - | 6 |
| | Sundries | + | 6 |
| | | | <hr/> |
| | | + | \$30mn. |
| | | | <hr/> <hr/> |

The result for January is a fall in reserves of \$122mn. to a level of \$23,225mn., after net new public sector borrowing of \$94mn. and a repurchase under the IMF oil facility equivalent to \$77mn. The extension of the EMCF swap caused a fall of \$20mn. in the spot reserves, but increased the overbought forward position by a like amount. Overall this rose by \$281mn. to \$1,497mn.

29th January 1982.

JGH

US BOND AND MONEY MARKETS

Friday, 29th January 1982

Federal Funds

Opening: 13 $\frac{7}{8}$ %
Range: 13 $\frac{7}{8}$ % - 14 $\frac{1}{2}$ %
Close: 14 $\frac{1}{2}$ %

US Governments (NY closing bids)

2-year: 100 $\frac{1}{2}$ (- $\frac{1}{4}$) 14 11/16%
5-year: 94 $\frac{1}{4}$ (- $\frac{1}{2}$) 14 7/16%
10-year: 99 $\frac{1}{2}$ (- $\frac{7}{8}$) 14 $\frac{3}{8}$ %
30-year: 99 $\frac{1}{2}$ (- $\frac{3}{4}$) 14 1/16%

Euro-dollars (Today's opening
London bid)

7-day: 14 $\frac{3}{8}$ %
1-month: 14 $\frac{5}{8}$ %
3-months: 15 $\frac{1}{8}$ %
6-months: 15 9/16%

Federal Reserve Operations:

Weekend repurchase agreements for
the System with Fed Funds at 14%.
Stop Rate 13.20%.

Indicators M1: -\$0.6bn. (latest 13-weeks: +13.9%)

Comment:

After opening softer, the bond market attracted some early support, despite a firmer tendency for Federal Funds. By the early afternoon, most gains had been erased as nervousness developed over the money supply. Funds continued to firm, too, even after the Fed's intervention. The M1 announcement was very disappointing and the market sold off.

JGH 1st February 1982.

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