

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 21st December 1982

The dollar and sterling weakened in tandem today under pressure of persistent, widespread selling. The dollar's weakness was largely attributable to enhanced expectations of a further fall in US interest rates, prompted by another fall in inflation (US consumer prices +0.1% in November) and continuing weakness in the domestic economy (the first estimate of GNP in the fourth quarter showed a fall of 2.2%, contrary to expectations of a modest rise). Sterling's weakness could not be laid at any particular door but was a consequence of the pervasive bearish market sentiment following the unsatisfactory OPEC conference. The rate fell particularly sharply against the major Continental currencies and the yen but also closed lower against the easier dollar. The ERI fell 0.6 to a new low of 84.6.

There was some selling of sterling in New York last night before the close there at 1.6080. This morning the dollar had eased in the Far East and the rate opened in London at 1.6110. In quiet early trading, with the dollar continuing to weaken in Europe, the rate reached 1.6145 at best and traded for the most part narrowly around 1.61½ during the morning, helped by some modest official demand from Europe. However, some commercial selling was seen towards noon and when a large selling order for a Middle East holder of sterling came into the market, the rate began to give ground despite the dollar's weakness elsewhere. The release of the US CPI figure, followed by the fall in fourth quarter GNP, added to the dollar's easier tone but sterling failed to respond, depressed by some selling from the US, perhaps on behalf of the IMM. The rate traded with a very soft tone throughout the afternoon, falling to 1.6072 shortly before the close at 1.6091. In late business sterling continued to drift lower, falling at worst to 1.6025, despite sizeable support. Three-month Euro-dollars were 3/16% lower at 9 9/16% and sterling's forward discount was 1¼%.

The pound lost ground in Europe, falling 1% in Germany (3.86½) and France (10.93½) and 1¼% in Switzerland (3.25). The dollar fell ½% in each of these centres to close at 2.4035, 6.8 and 2.0195. In EMS, the French franc moved to top position, 1¼% above the Belgian franc (47.03). The French were again able to recoup some of their recent support, buying \$220mn. (of which \$173mn. was in deutschemarks) while the Italians bought \$101mn. The punt, perhaps affected by the weakness of sterling, moved closer to the bottom of the band, despite \$14mn. of support. Elsewhere, the Swedes sold \$57mn. The yen continued in strong demand, particularly against sterling, improving to 242.20.

Gold strengthened a little as the dollar eased, fixing at \$441.75 and \$442.25.

Operations:	Market	-	\$95mn.
	Crown Agents	+	8
	Sundries	+	10
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		-	\$77mn.
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21st December 1982.

TRS

US BOND AND MONEY MARKETS

Tuesday, 21st December 1982

Federal Funds

Opening: 8½%
Range: 8½% - 8½%
Close: 8½%

US Governments (NY closing bids)

2-year: 99¼ (+¼) 9½%
5-year: 99¼ (+½) 10¼%
10-year: 100 (+1½) 10½%
30-year: 98¾ (+2½) 10½%

Euro-dollars (Today's opening
London bid)

7-day: 8 15/16%
1-month: 9¾%
3-months: 9 7/16%
6-months: 9¾%

Federal Reserve Operations:

\$700mn. customer repurchase
agreement with Fed Funds at 8½%.
Stop rate 8.53%.

3-month Treasury Bills 8%
3-month US bank CDs 8½%
Differential ½%

Indicators

CPI +0.1% (after +0.5% in October)
GNP flash estimate -2.2% fourth quarter
Durable goods +1.9% (after -4.9% in October)

Comment:

The market opened ¼-¾ higher following the favourable CPI figure and, with the GNP flash estimate showing an unexpected decline in the economy in the fourth quarter and the Fed Funds rate declining to 8½%, continued to move up through the day.

The new \$4.5bn. 7-year was auctioned at a yield of 10.58%.

22nd December 1982.

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