SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 6th January 1983

Sterling experienced a very difficult day of heavy professional selling. With sentiment already bearish because of continuing talk of lower oil prices, markets seized on the unexpectedly large reserve loss in December, as revealed in yesterday's announcement, to push sterling lower on the exchanges today. The only redeeming feature was that the activity appeared to be wholly professional in nature and no sizeable corporate selling was seen. Sterling again set new recent lows against the major Continental currencies and lost 0.6 in effective terms, the ERI closing at a new low of 82.9. Meanwhile, the dollar, which had weakened overnight, recovered all its losses in Europe today to end little changed.

As the dollar weakened in New York last night, sterling moved up somewhat reluctantly to close there at 1.6250. Professional selling commenced in the Far East in the early hours and by the London opening sterling had fallen to 1.6205 against an otherwise unchanged dollar. Right from the start of business heavy selling was seen from a large number of banks in Europe, with the German banks particularly active, and the rate immediately began to give ground. In active trading, and despite some support the rate moved progressively lower, pausing only for short periods of profit-taking and consolidation. In mid-morning, with the rate then at 1.61, the selling pressure abated and as a large Swiss bank came in to take some profit, a cautious recovery commenced, the rate reaching 1.6135 in late morning. However, with the dollar firming in Europe, the pressure was renewed over the lunch period when a large US bank appeared as an aggressive seller. The pound fell back through 1.61 at this time, steadying with the aid of further support at 1.6075 in the early afternoon as the dollar strengthened further elsewhere. The selling from the US during the afternoon was not, however, on the scale seen from Europe during the morning and when the large seller had completed his business the rate recovered to 1.6130 at best, before ending at 1.61. Three-month Euro-dollars closed ⅛% down at a 2½-year low of 8 15/16% and sterling's forward discount widened to 1 9/16%.

The pound lost further ground in Europe, closing ⅞% lower in Germany (3.77⅞), Switzerland (3.15⅛) and France (10.71¾). The dollar was a little easier in these centres at 2.3472, 1.9570 and 6.6567 respectively. Rumours of a weekend EMS realignment continued to circulate and the Belgian franc (46.24) received $42mn. worth of support against the guilder (2.5935) at the top. The Bank of France supported the franc against the deutschemark, selling a total of $180mn. (of which $75mn. was in deutschemarks and $51mn. in Swiss francs). The Italians sold $29mn., the Irish $13mn. while the Danes bought $32mn. Profit-taking weakened the yen to 230.10.

Gold had strengthened overnight on some good demand in New York but it gave up some of its gains in London today, fixing at $458 and $454.50.

Operations:	Market	-	$90mn.
	Bangladesh	-	8
	Interest	+	10
	Sundry	+	1
		-	$87mn.
6th January 1983	Overnight	-	$3mn.

TRS

US BOND AND MONEY MARKETS

Thursday, 6th January 1983

Federal Funds

Opening:	8¼%
Range:	8¼% - 8½%
Close:	8½%

US Governments (NY closing bids)

2-year:	100	(-)	9⅜%
5-year:	100⅛	(-)	10 1/16%
10-year:	100¾	(-)	10⅜%
30-year:	99⅛	(-)	10½%

Euro-dollars (Today's opening London bid)

7-day:	8 13/16%
1-month:	8 13/16%
3-months:	8⅞%
6-months:	8 15/16%

Federal Reserve Operations:

3-month Treasury Bills	7 15/16%
3-month US bank CDs	8 7/16%
Differential	½%

Indicators

Comment:

The bond market had an uneventful day with little change in prices.

7th January 1983.

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