

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSTuesday, 11th January 1983

Sterling had a very bad day, suffering from heavy and sustained selling. With markets interpreting the Prime Minister's trip to the Falklands as providing a springboard for an early general election and continuing expectations of a reduction in oil prices, sterling was under pressure both in New York last night and throughout the day in London. While much of the selling was professional in nature, some large commercial orders went through the market and some disinvestment was seen by Middle East investors. The ERI fell another 1.0 to a new low of 80.6. News of the 1% increase, to 11%, in Barclays' base rate came after the close and sparked off some short-covering, taking the ERI back to a level not far below yesterday's close. Elsewhere, although Morgan Guaranty led prime rates down to join Chase Manhattan at 11%, the dollar was generally firmer on the back of some profit-taking following its recent sharp decline.

With several New York banks and the IMM in Chicago selling sterling last night, the rate fell throughout the evening to close at 1.5782. This morning the rate opened at 1.5820 and, having touched 1.5848, started to fall back as some early selling developed out of Europe. The rate fell to 1.5810 but recovered again quite quickly with some demand from Eastern Europe, perhaps in cover of sales made yesterday. At this time business was active and two-way but before long the sellers were in the ascendancy, with pressure coming from South and North Africa. With a large commercial order against deutschemarks from Germany and some disinvestment from Middle East institutions, the rate fell steadily for the balance of the morning, reaching 1.5733 at noon against a slightly firmer dollar. New York took the dollar higher and sterling slipped further as the German commercial order continued to depress the rate. By mid-afternoon sterling had fallen to 1.5630 and it rose a little from there towards the end of the day as rumours of an increase in base rates circulated in the market. At the close sterling was at 1.5675. After the close, and following Barclays' move the rate rose almost two cents to 1.5850. Three-month Euro-dollars were 1/16% easier at 8 11/16% and the cost of forward cover was 2 1/4%.

The pound was again weaker in Europe, setting a new series of recent lows. It fell 1% in Germany (3.68) and France (10.42 1/4%) and 5/8% in Switzerland (3.03 3/8%). The dollar firmed by 5/8% in each of these centres to 2.3473, 6.6517 and 1.9355 respectively. In EMS the Belgian franc (46.10) remained at the bottom, 2% below the guilder (2.59) at the top. The French bought \$130mn. (all but \$9mn. of which was in deutschemarks), the Danes bought \$6mn. and the Irish sold \$30mn. The yen eased to 228.85.

Gold continued its recent strong rally during the morning when it fixed at \$490.50. Later, however, it too suffered from profit-taking as the dollar strengthened and the second fixing was at \$484.50.

Operations:	Market	-	\$29mn.
	Greece	-	6
	Switzerland	+	22
	Government	+	11
	Interest	+	5
	Sundries	+	8
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		+	\$11mn.
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11th January 1983.

TRS

US BOND AND MONEY MARKETS

Tuesday, 11th January 1983

Federal Funds

Opening:  $8\frac{1}{4}\%$   
Range:  $8\frac{1}{4}\%$  -  $8\frac{3}{8}\%$   
Close:  $8\frac{3}{8}\%$

US Governments (NY closing bids)

2-year:  $100\frac{3}{8}$  (+ $\frac{1}{8}$ ) 9 3/16%  
5-year:  $100\frac{3}{4}$  (+ $\frac{1}{4}$ ) 9 $\frac{7}{8}$ %  
10-year:  $101\frac{1}{8}$  (+ $\frac{1}{4}$ ) 10 5/16%  
30-year:  $99\frac{1}{4}$  (+ $\frac{1}{4}$ ) 10 $\frac{1}{2}$ %

Euro-dollars (Today's opening  
London bid)

7-day:  $8\frac{3}{4}\%$   
1-month:  $8\frac{5}{8}\%$   
3-months:  $8\frac{5}{8}\%$   
6-months:  $8\frac{3}{4}\%$

Federal Reserve Operations:

Bought \$375mn. Treasury Bills for  
customers.

3-month Treasury Bills  $7\frac{3}{4}\%$   
3-month US bank CDs  $8\frac{1}{8}\%$   
Differential  $\frac{3}{8}\%$

Indicators

Major banks reduced prime rates by  $\frac{1}{2}\%$  to 11% (Chase Manhattan  
had reduced their prime rate on 28th December).

Comment:

Another fairly quiet day.

12th January 1983.

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