SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 12th January 1983

Following the 1% rise in the clearing banks' base rates, led by Barclays, late yesterday, the heavy selling pressure on sterling eased and the pound made a very modest recovery. The atmosphere nevertheless remained extremely nervous with dealers concerned about the effect of sterling's fall and the consequent rise in inflation (brought home by the 1% increase in wholesale prices in December announced this afternoon) on the Government's electoral prospects. In these circumstances, there was some feeling in the markets, particularly during the morning, that the 1% rise in interest rates would be insufficient to stem the outflows from London. Sentiment improved a little, however, following the Conservative Party Chairman's firm denial of any plans for an early election and the pound consolidated at its new lower levels. The ERI rose 0.8 to 81.4. As so often recently, sterling and the dollar moved in tandem and the dollar, too, recovered some of its recent losses in Europe and Japan with widespread covering of outstanding short positions.

Sterling traded for a while above 1.58 in New York last night following Barclays' move but it slipped back by the close there to 1.5760. This morning the rate opened at 1.5825 but immediately fell back as some early selling developed from Germany and the Middle East. Within the first hour of trading sterling had fallen back to 1.5752 but it recovered quickly as rumours spread through the market that Midland Bank (whose base rate was then still at 10½%) would move to 12%. Sterling moved up to 1.5860 briefly at this time but fell back to trade around 1.58 after news that Midland had joined the other clearers at 11%. Thereafter much of the remainder of the day was rather quiet with some modest two-way business and a little demand for sterling during the afternoon from US banks. Although the dollar was strengthening elsewhere, with New York again bidding actively for dollars, sterling held close to the 1.58 level, ending at 1.5788. Three-month Euro-dollars were 1/16% firmer at 8¾% and the cost of forward cover rose to 2⅝%.

Sterling recovered all of yesterday's losses in Europe, rising 1¼% in Germany (3.72⅜) and France (10.55⅝) and 1% in Switzerland (3.06⅜). The dollar was ½% firmer in each of these centres at 2.3590, 6.6862 and 1.9407 respectively. In EMS the guilder (2.6007) remained at the top, 2 3/16% above the Belgian franc (46.35). The Italians bought $47mn., the Dutch $25mn., the Danes $24mn., while the Irish sold $37mn. The yen weakened to 230.

Gold was again an active market but with the dollar strengthening over the day, it suffered some profit-taking. The fixings were at $483 and $480.50.

Operations:	Market	+	$9mn.
	BIS	-	9
	Sundries	+	10
		+	$10mn.

12th January 1983.

TRS

US BOND AND MONEY MARKETS

Wednesday, 12th January 1983

Federal Funds

Opening:	$8\frac{3}{4}$%
Range:	$8\frac{1}{2}$% - $8\frac{7}{8}$%
Close:	$8\frac{3}{4}$%

US Governments (NY closing bids)

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

Euro-dollars (Today's opening London bid)

7-day:	9%
1-month:	$8\frac{3}{4}$%
3-months:	$8\frac{3}{4}$%
6-months:	$8\frac{7}{8}$%

Federal Reserve Operations:

Repurchase agreement for system account with Fed Funds at $8\frac{7}{8}$%. Stop rate 8.55%.

3-month Treasury Bills	7 11/16%
3-month US bank CDs	8 3/16%
Differential	$\frac{1}{2}$%

Indicators

Retail Sales -0.4% in December

Comment:

After opening slightly lower, the market traded in a narrow range through the morning. The Fed's repurchase agreement caused a small rally and the market closed at its high.

13th January 1983.

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